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THE

WORK OF A BANK

BY

H. T. EASTON

AUTHOR OF "BANKS AND BANKING"

Associate of the Institute of Bankers; 1st Gilbart Prizeman, King's College, 1879

SECOND EDITION

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LONDON

EFFINGHAM WILSON

ROYAL EXCHANGE, E.C.

1900

PREFACE.

THE purpose of this small volume is to give an outline of the work carried on in a bank, and is intended chiefly for those who are about to commence their banking career.

Although there are many books which treat of the history of banking, there are but few which give an account of the actual work.

The successful candidate on obtaining his appointment soon realises the difference between school and office work. For example, the book-keeping taught in school is of a theoretical nature, without reference to the different methods required for every business. This is illustrated in the case of banking, where the chief commodity is money in a variety of forms. Again, the terms used, such as drawer, acceptor, indorser; and the documents handled, *viz.*, cheques, and bills of exchange, are possibly met with for the first time.

The author has endeavoured to give a general outline of the work by means of specimens of books and forms actually in use. It would be impossible in a small manual to mention all the subsidiary books, but forms of the principal ones are given.

The author wishes to express his thanks to many banking friends, who have kindly furnished him with valuable information.

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BY THE SAME AUTHOR.

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BANKS AND BANKING.

PRESS OPINIONS.

"A considerable number of facts in the history of banking are brought within a small compass, and the principles that underlie the different operations of banking are successively shown."—*Journal of the Institute of Bankers.*

"The history of banking is continued carefully from the foundation of the Bank of England, and Mr. Easton deserves our thanks for his remarks upon the same. The main features of our existing system are given in a manner which will be very clear to those who have adopted banking as their profession."—*Athenæum.*

"The subject of banking in the United Kingdom is dealt with in this volume in a thoroughly scientific and lucid manner. Copious extracts from the work relating to the Bank of England's Discount Rate have been published in the previous numbers of the *Bankers' Magazine.* Those who desire to gain a knowledge of British banking methods will find Mr. Easton's book most valuable."—*Bankers' Magazine, New York.*

"Finance in all its forms is exhaustively dealt with, as well as the growth of banks in general, and the Bank of England in particular from the earliest time."—*The World.*

"An admirably lucid statement of the main facts with regard to banks and banking business, well fitted for the careful study of all who are either directly or indirectly interested in the monetary concerns of the country."—*The Scotsman.*

LONDON:

EFFINGHAM WILSON,

ROYAL EXCHANGE, E.C.

1896.

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CHAPTER I.

INTRODUCTION.

A KNOWLEDGE of banking practice and work is essential to those who intend to follow the banking profession, because although the work seems at first somewhat mechanical, yet the clerk might at some future period become a manager of a branch or possibly the general manager of a large bank, where a practical knowledge of the subject in all its aspects is indispensable. The work of a bank appears somewhat complicated, but when analysed is of a simple nature.

For example, a banker is a merchant dealing in capital, and in this capacity acts as a broker between two principals; on the one hand we have the depositor who leaves his capital in order to obtain interest for the same, and on the other hand the borrower who is willing to pay a certain sum for the loan of capital. The difference between the amount paid to the depositor and the amount received from the lender would constitute the banker's profit.

The banker, however, obtains additional profit in the shape of commission for certain work done, and also earns a profit from capital left with him, for

which he is not expected to pay interest because of services rendered. We cannot give a better idea of the work carried out than by stating what a bank is prepared to do for those who deposit capital.

We often see the following statements, *viz.* :—

1. The bank opens drawing accounts with commercial houses and private individuals upon the plan usually adopted by other bankers.

2. Deposit accounts are issued for sums of money placed upon these accounts, and interest is allowed for such periods at such rates as may be agreed upon, reference being had to the state of the money market.

3. Approved bills of exchange are discounted, and loans made upon negotiable securities.

4. The agency of foreign and country banks is undertaken.

5. The purchase and sale of stocks are effected as well as dividends collected on stocks, and the receipt of pay and pension for customers is also undertaken.

6. Foreign and Colonial bonds are received and the coupons detached, and deeds and other valuable security are also received for safe custody.

7. The books of corporations and other companies are kept and the dividends paid half-yearly.

8. Circular notes and letters of credit are issued when required.

9. Money is received from the branches for transmission to other branches.

We shall find it advantageous in considering the

work of a bank if we take the above divisions, because for each certain books and forms are required.

Although we shall describe the routine of a large London bank, yet the system at a branch would be to some extent of the same character; for example, the opening of an account, the issue of deposit receipts, the discount of bills, would require the same procedure in a small country branch as at the central establishment.

The work of a large institution must be sub-divided, because we cannot obtain efficiency without such divisions.

We know that by division of labour we get the best results, and in a bank it is found that an official performing certain definite work is more efficient than one who has multitudinous duties.

In a large bank all cheques are paid by one set of clerks called the paying cashiers, who become experts in their knowledge of signatures and other technical work which a cashier should know thoroughly.

In the same manner, bills of exchange, which form a very important item in the daily routine, are delegated to a separate office, where the officials have a practical knowledge gained by long experience.

It is important that the main facts relating to banking should be understood in order that the clerk may see that his work, although very simple, is in reality a part of a system of transfer of capital from one group of persons to another.

Banks have become huge storehouses of capital, and therefore wield an immense power in the present day.

Again, the forces at work which show their effect upon the supply and demand of capital are of an important nature. The outcome of such forces is illustrated in the rate of interest, which is the money value for the loan of capital, and such rates will be considered in connection with loans and discounts. The growth and development of trade has an important effect upon the work of a bank. A new opening for trade in some distant part of the world requires possibly new methods for dealing with it, and consequently a bank is called upon to formulate some scheme for its successful manipulation. This is illustrated in the case of our Eastern trade, which is carried on by means of telegraphic transfers, and this system has had its effect upon the number of bills of exchange formerly used in that particular trade. Consequently the work of a bank is diverted into another channel.

There is, in fact, a continual change taking place, partly due to new methods of procedure and also to new forms of carrying on the trade of the country.

The tendency of the present day is that commercial dealings should be on a cash basis. This has diminished the bill transactions in a bank, but increased the work of the clearing departments.

We shall describe the various forms and books re-

quired to carry on the work, but it must be remembered that no uniformity exists amongst the banks of this country.

It has been already stated that special kinds of business require different treatment, so that a bank in a commercial centre would require different books from one in an agricultural district.

Again, it is considered expedient in some banks to have additional checks upon the entries in the cash-books and ledgers, but what is necessary in one bank may be of little value in another.

The system of bank book-keeping should be as simple as possible, but at the same time the check on the entries must be perfect.

Although specimens of books are given it must not be assumed that they are the best or only forms of any value.

CHAPTER II.

QUALIFICATIONS.

In order to be qualified for the work described in the previous chapter the bank official should have received a good commercial education. The curriculum of the modern side of one of our public schools would answer all requirements. As an instance we might mention King's College School, London, where boys in the commercial division are taught, amongst other subjects, arithmetic, book-keeping, shorthand, history and geography, précis and indexing, writing and drawing.

A knowledge of French and German and other modern languages is also advantageous, because some of the large London banks have correspondents in the principal towns on the Continent and in foreign countries. Of course the principles of book-keeping should be thoroughly understood, because the routine in a bank largely consists of book entries, and the young official should understand how such entries are in reality the principles of book-keeping carried out in practice.

A candidate for a clerkship who has obtained a

certificate at the Oxford or Cambridge Local Examination or a certificate from the London Chamber of Commerce, would be considered qualified for an appointment.

The examinations of the London Chamber of Commerce are of a very practical nature, and a successful candidate holding such certificates would be fully qualified for a bank appointment. The examination for Junior Certificates is as follows:—

Obligatory Subjects.

(*a*) English essay, including handwriting, orthography and analysis.

(*b*) Arithmetic, including a knowledge of the metric system.

(*c*) A modern foreign language, comprising translation, dictation and composition.

(*d*) Elementary drawing (freehand or geometrical or designing).

(*e*) Elementary chemistry and physics.

The optional subjects are divided into four groups, *viz.*, mercantile, linguistic, mathematical and scientific.

The senior commercial course is as follows:—

English.

Foreign Languages.—French, German, Italian, Spanish, Portuguese (any two of these, preferably including one other than French or German).

Mathematics.

Geography, with especial reference to commerce.

Commercial history.

Elements of political economy.

The optional subjects from which the candidate may select any two are:—

Mathematics (including the compulsory portion treated more fully and in addition trigonometry).

Latin.

Machinery of business.

Banking and currency.

Commercial and industrial law.

Book-keeping.

Chemistry.

Physics.

The subjects entitled the machinery of business, book-keeping, banking and currency, commercial law and also a colloquial knowledge of foreign languages, are useful to any banking official.

Above all, it is desirable that the candidate should be able to write clearly and distinctly. This is of great importance, especially in the case of figures, which should be very distinct, because errors often occur through figures being made carelessly.

It has been thought desirable to give some specimens of handwriting in order to illustrate the style required

We beg to inform you that the rate of interest on deposits has this day been reduced to 1% per annum.

Lombard St
E.C

Lombard Street &C.
December 1897

Gentlemen,

We have to acknowledge the receipt of your favour of the instant enclosing a remittance for

Liverpool.
20th Sept. 1897.

Sir,

I beg to enclose as requested a Draft for £160.2.6 in payment of remittance received in your favour of the 16th Inst less 2/3d commission.

Your most obedient Servant
J Jones
Manager

(Reduced from the originals.)

Although a candidate may hold several certificates, yet on receiving a nomination for a clerkship he is expected to pass a qualifying examination. Some of the banks in London require candidates to pass an examination at the City of London College in the following subjects, *viz.* :—

Writing.
Spelling.
English composition.
Arithmetic (including vulgar and decimal fractions, stocks and interest).

This does not appear to be a difficult test, but other banks require, in addition to the above, any one, but not exceeding two, of the following subjects, *viz.* :—

English history.
Geography.
Latin.
Greek.
German.
French.
Algebra to quadratic equations.
Euclid—first two books.

When a candidate has passed the examination and obtained an appointment in a bank, he should endeavour to continue his studies in order to qualify for the Institute of Bankers' Examinations.

If his knowledge of mathematics, book-keeping and modern languages has been maintained, he will not

experience much difficulty in passing the examination in these subjects.

Some of the banks recognise the value of the certificate given by the Institute, and higher appointments are reserved for those who possess it.

The examination for the certificate is as follows:—

Certificate of the Institute.

REVISED SYLLABUS.

Session 1896-7, and until further notice.

ARITHMETIC AND ALGEBRA.

Preliminary Examination.

Vulgar and decimal fractions.

Involution and evolution.

Percentage—simple and compound interest. Discount (bankers' and true).

Profit and loss—purchase and sale of stocks and shares.

Metric tables—international exchange.

Algebra—four simple rules, brackets, resolution into factors.

Algebraical fractions—simple and simultaneous equations.

Problems leading to these equations.

Final Examination.

1. *For a Simple Pass.*—Metric system, proportion and percentages, methods of prediction, interest,

annuities, stocks, accounts and balances, exchanges and exchange operations; the above being treated arithmetically.

2. *For a Pass with Distinction.*—All the above, and, in addition, the following algebraical subjects: ratio, proportion, variation, arithmetical and geometrical progressions, notation, surds, indices, quadratic equations, combinations, binomial theorem, logarithms, exponential and logarithmic series, interest annuities, sinking funds, repayment of bonds, valuation of leaseholds.

BOOK-KEEPING.

Preliminary Examination.

Definitions.

General principles.

Final Examination.

Double entry. { Elucidation. Illustration.

MERCANTILE LAW.

Preliminary Examination.

Questions will be set on—

The Bills of Exchange Act, 1882, and those portions of the Stamp Act which relate to bills, notes and cheques.

Final Examination.

Elementary questions will be set on—

The general principles of commercial law, including the law of bankruptcy.

Questions of a more advanced character on—

Law of negotiable instruments.

Candidates will not be expected to quote cases, but will be expected to give the reasons for their answers.

POLITICAL ECONOMY.

Preliminary Examination.

Definition of political economy; its relation to other studies.

Analysis and definition of its leading notions: utility and value, wealth and capital, competition and free contract, exchange and market.

The requisites of production.

Division and organisation of labour: capitalistic production, and the different functions of capital.

Increasing and diminishing returns.

Normal and market values.

Theory of the distribution of wealth: rent, interest, and earnings under perfect competition.

Actual distribution of wealth: wages, profits and rents, trades unions, relations of employer and employed.

The functions of money.

The principles of currency, treated in an elementary manner.

Final Examination.

The theory of value.

The principles of money and currency generally.

Credit.

International trade.

The theory of the foreign exchanges.

The economic principles of banking.

The money market.

The history of currency and banking.

The principles of taxation and public finance.

PRACTICAL BANKING.

Preliminary Examination.

Elementary questions on—

Banking: its nature and functions.

Principal features distinguishing the various classes of banks.

Definitions of banking and mercantile terms.

Banking operations.

Final Examination.

Questions on the ordinary practice of bankers in regard to—

(*a*) Cash accounts.

(*b*) Bills discounted.

(*c*) Advances.

(*d*) Deposit of valuables.

The connection between a country bank and its London agent.

The Bank of England: its relation to Government, the banks, and the public.

Issue of notes—England, Scotland and Ireland.

Banking investments.

Advances upon securities.
Exchanges.
Commercial crises.

ADDITIONAL AND VOLUNTARY SUBJECTS.

FRENCH.

Preliminary Examination.

The preliminary examination will comprise the translation from French into English of G. Guizot's *Alfred le Grand* (Hachette's edition, with notes), of simple passages and letters, some questions in grammar, and elementary questions relating to the French decimal system.

Final Examination.

The final examination will comprise the translation from French into English of (1) Victor Hugo, *Extraits*, edited by H. Lallemand (Hachette's edition, with notes), and (2) J. G. Courcelle-Seneuil's *Les Opérations de Banque* (seventh edition, by A. Liesse), eight francs (Librairie Gillaumin et Cie., rue Richelieu 14, Paris), and also the translation from English into French of unseen paragraphs and a business letter

GERMAN.

1. Translation from German into English of *Oliver Cromwell*, pages 36-93, in Pauli's *Robert Blake and O. Cromwell.*

2. Translations from German into English of pages 19-26 and 81-93 in Pressinger's *German Commercial Reader*.

3. Translation from German of an easy piece of "unseen".

4. Questions in German grammar, which must be answered in German handwriting.

5. Translations into German of a few easy sentences.

CHAPTER III.

FORMS OF MONEY.

In a bank by the term money is meant coin, but there are other documents used and known as "cash articles" which perform the same work as actual coin. We shall therefore describe all documents which are used in a bank for the purpose of transferring capital from one person to another. It must, however, be understood that although documents are used, it is always on the understanding that if necessary payment shall be made in actual coin.

We have in this country a gold currency, the sovereign being the basis of exchanges. The weight of the sovereign is 123·27447 grains of English standard gold, there being one part of alloy to eleven parts of fine gold. From the weight of the sovereign we get the Mint price of gold, *viz.*, £3 17s. 10½d. per oz.

Both silver and copper coins circulate, but are known as token money, because they represent fractions of gold coins and are not intrinsically worth their value. Silver coins are a legal tender for 40s., and bronze coins for 1s.

There are two forms of bank notes in circulation in this country, *viz.*, notes issued by the Banks of England and Ireland, and notes issued by English, Scotch, and Irish banks.

With regard to the notes of the Banks of England and Ireland, they are a legal tender in their respective countries, but their issue is limited by Acts of Parliament. The holder is entitled to demand coin for them on presentation for payment at the bank which issues them.

The notes issued by English, Scotch, and Irish banks are not a legal tender, but form a useful circulating medium in the country.

We shall now treat of the cheque, which is the most important document used in a bank.

The early bankers of this country, when capital was deposited with them, gave in exchange a bundle of notes, but in course of time this system was abolished in consequence of the restrictions placed on their issue.

Instead of issuing notes, the amount deposited was recorded, and the depositor received a book of forms to bearer or order so that when necessary his capital could be withdrawn. As these orders were numbered, they formed a check on the banker's ledger, so they were at first called "checks," but afterwards the term "cheque" was adopted.

A cheque is legally defined as a bill of exchange drawn on a banker payable on demand.

When a cheque has two parallel transverse lines, it is said to be crossed, and can only be paid through a banker.

If in addition to the two lines the words "not negotiable" are added, the holder takes the cheque at his risk in case of any defect in the title.

The person who draws the cheque is called the drawer, and the person in whose favour it is drawn is called the drawee. In addition to bank notes and cheques we have bills of exchange, which are utilised for the payment of debts. Such credit documents are received daily in every bank, and the work connected with them is of a varied character.

Merchants who accept bills, usually make them payable at their bankers, and consequently are paid at maturity in the same manner as cheques. Again, bankers buy bills from their customers, or as it is called "discount" them.

With regard to the latter procedure, we shall treat of it when the lending of the resources of a bank is discussed.

A bill of exchange is defined as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

The following is a form of a bill of exchange:—

"£100. "LONDON, 1st *January*, 1897.

"On demand (or at sight or at ..... months after date) pay to my order the sum of One Hundred Pounds for value received.

"WILLIAM BROWN.

"*To* Messrs. JONES & Co.,
"Sheffield."

The person who makes the bill is called the drawer, and the person to whom it is addressed is called the drawee, and if accepted by him is known as the acceptor. As bills form a method of payment, they pass from one person to another, or, as it is termed, are negotiated. When this occurs, the person before delivery signs his name on the back, and is termed an indorser. If the indorser make the bill payable to another person, the latter is known as an indorsee.

Every indorsement on a bill really constitutes the indorser as a new drawer, and the indorsement admits the signature and capacity of every prior party, so that every indorsement on a bill is an additional security to the banker.

A bill of exchange requires an *ad valorem* stamp which must be impressed on it. The duty on inland bills of exchange is as follows:—

Any amount on demand - - 1d.

Of any other kind and promissory note—

Not exceeding	£5	-	-	1d.
,,	10	-	-	2d.
,,	25	-	-	3d.
,,	50	-	-	6d.
,,	75	-	-	9d.
,,	100	-	-	1s.

and for every additional £100 or fraction of £100, 1s.

All bills must be presented for payment by the holder on the day they fall due; those payable after date or after sight are allowed three extra days; this additional time is called "days of grace". If the bill is not presented on the due date the drawer and indorsers would be discharged.

A bill is usually drawn on demand, or at a fixed or determinable time, such as a fixed period after date, at sight or after the occurrence of a specified event which is certain to happen.

If a bill is not payable to bearer, the payee must be named or otherwise indicated with reasonable certainty, and if it does not contain words prohibiting transfer, it is payable to the person named or to his order at his option.

A bill is payable to "bearer" which is expressed to be so payable, or on which the only last indorsement is an indorsement in blank.

A bill is "dishonoured" by non-payment when it is duly presented for payment and payment is refused, or cannot be obtained, or when presentment is excused and the bill is overdue and unpaid.

A bill is "discharged" by payment in due course by or on behalf of the drawer or acceptor.

It is advisable for the official to have a knowledge of the laws of cheques, bills of exchange, etc., and he will find the small volume published by Effingham Wilson very useful for that purpose.

CHAPTER IV.

CURRENT ACCOUNTS.

THE junior clerk on commencing his career in a bank becomes at once cognisant with the three principal books in use, *viz.*, the pass-book, cash-book and the ledger, and also with the documents which are entered in those books, *viz.*, cheques and bills of exchange.

Possibly the first work undertaken would be to write up pass-books, that is, to enter the receipts and payments. The former are entered from what is known as credit slips or dockets which are made out when a sum of money is paid into the bank. The payments are entered from the cheques and bills of exchange which form the medium of drawing money by a customer from the bank.

Thus we have credit and debit entries to be made in the three books already mentioned.

With regard to the terms used, the junior official will find that by money is meant actual coin, and "cash articles" are bills and cheques sent out for collection.

Instead of the term adding an account it is usual

to say to "cast" the same. The difference between the credit and debit sides of an account in the ledger is called the balance.

The collection of cheques and bills payable at other banks, or of bills made payable at the place of business of the acceptor, is also undertaken by the junior clerks, who must exercise care in the performance of this duty.

We shall now consider the work in connection with current or drawing accounts, which are so called because the customer is continually paying in and drawing out sums of money in order to carry on his daily business.

When a customer who has been properly introduced opens such an account with a bank, he is supplied with a cheque-book containing a certain number of cheques to bearer or to order, and also a pass-book which is a complete record of all sums received and paid, and is, in fact, a copy of the ledger account.

The customer also writes his name in a signature-book, so that the bank can verify his signature upon cheques and bills of exchange.

There are two forms of pass-book as follows, *viz.*:—

THE LONDON BANK IN ACCOUNT WITH MESSRS. JOHN BROWN & Co.

DR.					CR.		
	£	S.	D.		£	S.	D.
To Cash - -	90	0	0	By Self - -	20	0	0

MESSRS. JOHN BROWN & CO. WITH THE LONDON BANK.

DR.					CR.			
	£	s.	d.		£	s.	d.
To Self - -	20	0	0	By Cash - -	90	0	0

In the first example given the bank debits itself with cash paid in and credits itself with cheques drawn.

In the second form the customer is in account with the bank, so sums paid in, are credited and sums drawn are debited.

Both forms are correct, but when the first is adopted the ledger account is reversed, *viz.*, sums paid in are posted to the credit side, and sums drawn out on the debit side. As the customers are the bank's creditors, cash received is thus posted to the credit side of the ledger.

The customer is also supplied with a book of paying-in forms, which is as follows:—

	£	s.	d.	£	s.	d.
Silver - - - - - -	0	0	0			
Gold - - - - - -	10	0	0	10	0	0
Bank Notes - - - - - - -				20	0	0
Country Notes - - - - - - -				0	0	0
London Cheques - -	60	0	0	60	0	0
				90	0	0

The separation of the various items paid in, is of great importance, because it facilitates the work of the bank. For example, it is not necessary to enter each cheque on clearing banks in the cash-book, but simply the total.

The "paying-in" slip can be utilised for posting in the cash-book and ledger, but in some banks the cashier, from the paying-in slip, makes out what is known as a credit slip or docket, which is a form with the name of the customer and the amount received.

With regard to the cash-books, there are various forms, because in some banks it is the custom to show the daily receipts and payments in one book.

When the cash-book is a record of receipts and payments, the following form is adopted:—

Received—

Name.	Amount.			Cash Articles.			Notes.	Money.		
	£	s.	d.	£	s.	d.	£	£	s.	d.

and the debit side of the cash-book:—

Paid—

Name.	Amount.			Amounts paid over Counter.			Nos. of Notes.	Money.		
	£	s.	d.	£	s.	d.		£	s.	d.

The two columns of the paid side for amounts are used when cheques presented by other banks are paid by means of a draft on a clearing banker. When, however, there are separate books for cash received and paid, a form similar to the following would be used for the receipts :—

Money.			Notes.	Name.	Total of Credit.		
50			£100 5/20	J. Brown & Co.	450		

If a book like the above is used, the numbers of bank notes would be entered in a note-book, and particulars of drafts in a waste-book.

Another form of received cash-book would be as follows :—

Date.	Name.	Particulars.	Bk. Notes.			Drafts.			Coin.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
	J. Brown & Co.	56125 1/20	20	0	0	60	0	0	10	0	0	90	0	0

LIBRARY OF THE UNIVERSITY OF

After the credit slip is entered in the cash-book it is given to the ledger clerk for entry in the ledger.

These credit slips or dockets are then sorted away in alphabetical order, and are ready for entry in the customers' pass-books.

Thus by the use of dockets, we get a check upon the entries in the cash-book, ledger and pass-book.

In a London bank it is necessary to subdivide the drafts because they are collected through different channels. For example, the drafts may consist of cheques on clearing bankers, as well as cheques to be collected by the walk clerks, and also country cheques. The total effects are therefore handed to a clerk, who enters them in the goldsmiths'-book or waste-book.

This book is ruled as follows:—

Name.	Total Amount.			Clearing.	Walks.	Bank and Country Notes.	Bank of England.	House & Country Cheques.	Money.
	£	s.	d.						

The advantage of this book is clearly seen, because as all the various items go through different channels, it is necessary to have separate entries in order to check the totals of the books kept for Clearing, Walks, Bank Notes, Bank of England, etc.

This book is also of great assistance in the work of the daily balance of a bank, because it enables the clerk to localise the error if a wrong entry has been made.

THE PAID CASH-BOOKS.

When a cheque is presented for payment the cashier enters it, in a supplementary cash-book, which gives the particulars of the notes and money paid in exchange.

The book is ruled as follows:—

Total.			Name.	Numbers.	Amount of Notes.			Money.		
£	s.	D.			£	s.	D.	£	s.	D.
100	0	0	J. Jones & Co.	56570/1 2/5	10	0	0	90	0	0

The totals of the received and paid cash-book are entered into the day-book or journal, which we shall describe in a subsequent chapter; but in a large London bank it is necessary to have a second paid cash-book, because there are cheques being paid through various channels, such as those received from the Clearing House, cheques received for the credit of customers' accounts, and finally cheques received by walk clerks.

The cheques paid over the counter are then entered twice, *viz.*, into the cashier's supplementary book and the paid cash-book.

The *paid cash-book* would then be as follows :—

Name.	Goldsmiths'-Book.			Walks.			Paid Cashiers		
	£	s.	d.	£	s.	d.	£	s.	d.

The amount of cheques paid through the clearing would be added the next day. In order to facilitate the work of the bank two sets of books for the received cash-book, goldsmiths'-book, and paid cash-book are used on alternate days.

As all the entries in these books are checked the following morning it is almost impossible to work with one set of books, which are required daily for two distinct purposes, *viz.*, entry and check.

When the cheques are entered in the paid cash-books they are given to the ledger-keeper for entry and then cancelled.

Finally they are sorted in alphabetical order and subsequently entered in the pass-books.

We have therefore the same kind of check upon the entries upon the paid side of a customer's account as on the received.

An additional check upon the entries in the cash-books and ledgers is obtained when the pass-books

are examined. This is done by a clerk checking the entries in the pass-book with the ledger-clerk. As the entries in the pass-books are made from the credit slips and cheques there are three independent entries, *viz.*, in the cash-book, ledger, and pass-book, so that mistakes are reduced to a minimum.

THE LEDGER.

We have described the various books in which are recorded the amounts received and paid on a customer's account, and now it remains to give some account of the ledger, which shows the exact position of each current account.

There are several forms of ledgers, but only specimens of those generally adopted are given.

A simple form would be as follows:—

JOHN JONES & Co.

DR. CR.

1897.		£	s.	d.	£	s.	d.	1897.		£	s.	d.	£	s.	d.
Jan. 1	To Cash	90	0	0				Jan. 10	By Self	50	0	0			

The inner columns are used for the weekly or monthly amounts; the totals are at the end of those periods extended in the outer columns for the purpose of checking the ledgers with the cash-books.

Another form of ledger would be as follows:—

Date.	Particulars.	Debit.			Credit.			Credit Balance unless otherwise stated.		
1897.		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	By Balance				1000	0	0	1000	0	0
„ 10	By Gt. Indian Ry. Divid.				100	0	0			
								1100	0	0
					1100	0	0			
„ 15	To Cash -	50	0	0				1050	0	0

If the account is debtor, an entry to that effect is made in red ink. When this kind of ledger is used the balance on any account is at once seen, and this is very convenient when they are daily transactions consisting of a large number of entries. Sometimes the particulars of credits and debits are stated in different columns as follows :—

1897.	Dr.	Cr.	Dr.			Cr.			Balance.		
			£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	Jones	Cash	20	0	0	65	0	0	45	0	0
„ 6		Cash				100	0	0	145	0	0
„ 8	Evans		10	10	0				134	10	0
	£30 10s.	£165									

The totals of debits and credits in this case are shown weekly under their respective headings.

When interest is allowed on current accounts, it is necessary to have additional columns for the products, so that at the end of the half year the amount of interest can be calculated.

Date.	Particulars.	Debits.	Credits.	Dr. or Cr.	Balance.	No. of Dys.	Debit Interest Products.	Credit Interest Products.
		£	£		£		£	£
Jan. 1	Cash -		300	Cr.	300	9		2700
„ 10	To Cheque J. Brown	100		Cr.	200	2		400
„ 12	J. Smith	100		Cr.	100	3		300
„ 15	S. White	400		Dr.	300	5	1500	
„ 20			600	Cr.	300			

To interest to date at 5 per cent., £1 10s.
By interest on credit balances at 2 per cent., 6s. 10d.

In order to obtain the amounts of interest, multiply the product by double the rate per cent. and divide the result by 73,000.

We have described the principal books used with regard to the current accounts; all other books in use are simply of a subsidiary nature. For example, the clearing books are in reality a part of the received and paid cash-books. The totals of cheques sent to the Clearing House must agree with the totals of clearing in the waste-book and other books which have separate columns for clearing. Again, the totals of cheques received from the Clearing House are entered in the paid cash-book and form part of the total amount paid every day. It will be necessary to treat separately of the Clearing House system, when the books in use will be described.

It has been already stated that the waste-book is

subdivided into various columns showing the particulars of a credit, and therefore different books are required for the separate items. For example, a book is kept for the purpose of recording all cheques collected by walk clerks, and this book must agree with the total of the column in the goldsmiths' book. In a similar manner the bank note-book, Bank of England account in the ledger, cheques on the bank, which are entered in the paid cash-book, and the coin-book must also agree with the columns of the goldsmiths' book. There is no difficulty with regard to all these subsidiary books, if we recollect that they are simply used for the purpose of facilitating the daily balance of a large bank.

Another point to be remembered is that *all* sums received and paid *must* be entered in the day-book, which we shall describe in a separate chapter. It is of no importance whether there are a great number of received and paid cash-books, if we recollect that the totals must be summarised in the day-book, which is in reality the cash-book of the bank.

Bank book-keeping does not differ very much from that of a merchant, with the exception that instead of dealing in various kinds of goods, the bank deals in cash in a variety of forms. For example, a customer is credited with a certain amount which is represented by a series of cross entries, such as cheques, notes and money. The total of the effects received must agree with the total of the credits.

We have seen that the work is subdivided, and this of necessity means that certain clerks are required to perform specific duties. Thus cheques presented for payment are paid by the paying cashiers and credits are received by the receiving cashiers, who examine the credits in order to see that the paying-in slip is correct.

Cheques not paid at the Clearing House must be sent out for collection, and this work is done by the walk clerks.

Again the transactions at the Clearing House are effected by clerks known as "clearers". There are in addition the ledger clerks and examiners; the former entering or posting in the ledgers all cheques to the credit or debit of each account, and the latter performing a most important work, *viz.*, checking all the entries in the books of the bank.

In every bank the system of posting from the articles themselves is a check on the various entries. Thus the dockets for amounts received for credits are posted or entered by the ledger clerks and also by the pass-book clerks. Cheques paid are also used as dockets in a similar manner.

At the half-yearly balance all the current and deposit accounts must be ruled off, and the debit or credit balance shown.

Customers are usually requested to deposit their pass-books some days previous to the 30th June or 31st December in order that the books may be

balanced and agreed with the ledgers. In fact, a complete statement of everything held by the bank on behalf of customers should be shown.

In some banks, in order to facilitate the work of checking the ledgers, the various credits and debits are entered in skeleton form in what is called a check ledger, and the totals of this ledger should agree with the received and paid cash-books.

A form of a check ledger would be as follows :—

Name.	Debits.			Credits.		
	£	s.	d.	£	s.	d.
	100	0	0	200	0	0
	50	0	0	10	0	0
	200	0	0	500	0	0
	350	0	0	710	0	0

Previous Day's Balance - -	£5000
	£5710
Deduct Debits - -	350
	£5360

The daily balance of each ledger is therefore shown and the totals of all the ledgers are summarised in another book so that the liabilities of the bank on current accounts are shown. If, however, an Impersonal Account is opened in the general ledger, which we shall consider in a subsequent chapter, the same results would be shown.

CHAPTER V

THE DAY BOOK AND GENERAL LEDGER.

THE Day Book is a record of *all* sums received and paid during the day, so that we get a complete record of all transactions which have taken place. Thus money lent to customers, bills discounted, salaries, interest on loans, etc., are recorded and are posted from this book to the general ledger.

A form of the Day Book is shown on the next page which would be applicable to the head office of a bank; the country accounts can be enlarged to include the amounts received from branches.

This form should be carefully studied, because it shows every transaction which has taken place during the day. Thus the totals of the received and paid cash books are summarised, and all the transactions on loan account, discount account, etc., are shown.

In connection with this book, we have the General or Impersonal Ledger, in which the various items are posted, and thus we get the double entry system of book-keeping.

For example, if a bill is discounted, the customer's

		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
	**Balance* - - - - -				10,000	0	0								
Bills and P/y Note A/c -	B. Ayres, 1st Jan. -	800	0	0	800	0	0	Bills and P/y Note A/c -	Keyser, 4th Mar. -	100	0	0			
									Brown, 4th Apr. -	200	0	0			
Deposit A/cs -	F. May - - -	1,000	0	0									500	0	0
	F. Haines - -	500	0	0	1,500	0	0	Deposit A/c -	J. Box - - -	500	0	0			
Current A/cs -	J. Jones, Keyser due, 4th Mar. -	100	0	0				Current A/cs -	J. Jones, Discount -	0	5	0			
	H. Marks, Brown due, 4th Apr. -	200	0	0					H. Marks, do. -	0	12	6			
	J. Box, per Deposit	500	0	0					T. May, to Deposit -	1,000	0	0			
	Country Accounts, Sundry - -	15,000	0	0					J. Brown, Part of Loan - - -	1,000	0	0			
	Town Accounts, Sundry - -	20,000	0	0	35,800	0	0		Country Accounts, Sundry - -	20,000	0	0			
									Town Accounts, Sundry - -	10,000	0	0			
													32,000	17	6
Interest A/c -	Jones - -	0	5	0				Petty Expenses	Sundry Repairs -	10	0	0	10	0	0
	Marks - - -	0	12	6	0	17	6								
								Rent and Taxes	Poor Rate - -	100	0	0	100	0	0
Loan A c - -	J. Brown, Part of Loan paid off -	1,000	0	0	1,000	0	0		Balance - - -				16,190	0	0
					49,100	17	6						49,100	17	6

* This balance consists of Coin, Bank of England Notes and Cheques not collected the previous day.

GENERAL LEDGER.

CURRENT ACCOUNTS.

Date.	Particulars.	Debits. £	s.	d.	Date.	Particulars.	Credits. £	s.	d.	Balance. £	s.	d.
1897 Dec. 31										5,000,000	0	0
1898 Jan. 1	Paid Cash Books	200,000	0	0	1898 Jan. 1	Received Cash Books - -	300,000	0	0	5,100,000	0	0

INTEREST ACCOUNT.

					1898 Jan. 1	Interest on Bills Discounted -	350	0	0	350	0	0
					„ 2	Do.	200	0	0	550	0	0

RENT AND TAXES.

1898 Jan. 5	Poor Rate - -	10	0	0	1898				Dr.	10	0	0
Mar. 25	One Quarter's Rent	500	0	0					Dr.	510	0	0

current account is credited and the account of bills discounted in the General Ledger is debited.

The daily totals of the received and paid cash books are posted under the heading of current accounts, consequently the balances can be agreed with the ledgers if they are kept in such a manner in order to show the daily balances.

A specimen of the General Ledger is given on the previous page.

There is no difficulty in preparing the half-yearly balance sheet, because the General Ledger contains the necessary information; the various accounts, such as current accounts, deposit accounts, interest, salaries, discounts, rent and taxes, supply the particulars for the general statement.

The Day Book also acts as a journal, because a transfer from one account to another can be made.

Thus if a customer wishes to transfer a sum of money from current account to deposit account it can be effected through the medium of the Day Book.

The notes and money held are not shown by a ledger entry, but the amount is brought forward daily. If the bank requires cash, a cheque is drawn on the Bank of England for the amount.

The following illustration from *Gilbart's Banking* gives some idea of the accounts in the General Ledger.

The balances are usually shown quarterly and half-yearly.

Balances. Dr.	Title of Accounts.	Ledger Folio.	Balances. Cr. £	s.	d.	Amounts. Cr. £	s.	d.
	I. *Lodgment*—							
	London Current Accounts -							
	Country Current Accounts -							
	Deposit Receipts - - -							
	Bills Deposited (in London) -							
	Ditto (from the Country) - -							
	Notes in Circulation - - -							
	Credits on Agents - - -							
	II. *Investment*—							
	Bills Discounted (in London) -							
	Ditto (from the Country) - -							
	Past Due Bills - - - -							
	Government Stock - - -							
	Indian Government Stock -							
	Colonial Government Stock -							
	Loans to Customers - - -							
	Ditto to Brokers - - -							
	Interest Account - - -							
	III. *Expenditure*—							
	Bank Premises - - - -							
	Rent - - - - -							
	Taxes - - - - -							
	Salaries - - - - -							
	Incidental Expenses - - -							
	Law Expenses - - - -							
	IV. *Cash Account with Branches*—							
	Branch A - - - - -							
	Do. B - - - - -							
	Do. C - - - - -							
	Do. D - - - - -							
	V. *Proprietors' Accounts*—							
	Paid-up Capital - - -							
	Preliminary Expenses - -							
	Dividend Account - - -							
	Unclaimed Dividends - -							
	Surplus Fund - - - -							
	Profit and Loss - - -							
	Fund for Bad Debts - - -							
	General Account of Cash - -							

The amounts would be the totals from the previous quarter, and consequently we can ascertain whether the business is progressive.

In connection with the Day Book, we have the daily balance in a bank, which in a simple form would be as follows:—

Cash Book last night	£25,000	Paid Day Book	£20,000
Received Day Book	40,000	Cash Book to-night	45,000
	£65,000		£65,000

It would be impossible in a large London bank to make the final entries in the Day Book at the close of day, because of numerous alterations which are made in consequence of cheques being paid through the Clearing House, and therefore a trial ticket is made out as follows:—

Dr.							Cr.
	£	s.	d.		£	s.	d.
Amount of Cash Book (Money and Notes)				Amount of Paid Cash Books			
Received Cash Books				Discount Cash Book			
„ Discount Cash Book				Clearing Book			
				Walks			
				Money			
				Notes			
				Bank of England			
				Cheques			
				Cheques Unpaid			

The above shows the effects held when the balance is struck after closing hours.

The Discount Cash Book would show on the received side the bills which mature and also loans paid off. On the paid side a statement of loans granted, and bills which have been discounted.

The amount received for bills paid at maturity would be shown in the amount received from the Clearing House or in the cash balance of the bank.

The Bank of England does not receive its own cheques at the Clearing House, but delivers to the clearing bankers cheques drawn upon it.

In order to agree the daily balance, all cheques on the Bank of England are posted to an account in the current account ledger which is always debtor, and the total amount of this account must be included. Again, the cheques from the Clearing House may be omitted from the trial balance, although included next day when the final trial is made. As cheques are received from the Clearing House some time after 4 P.M., it would be somewhat late before a trial could be made, because the cheques require to be sorted and entered in paid clearing books before the total amount could be ascertained.

A new trial is made the next morning, when the clearer's difference is taken, and the final entries made in the Day Book.

CHAPTER VI.

DEPOSIT ACCOUNTS.

WHEN money is left on deposit with a bank, it is usual to issue a receipt for the same in the following form :—

——— Bank.
London, 1*st January*, 1897.

Deposit Receipt.
No.

Received from William Evans the sum of One hundred Pounds for three years to bear interest at the rate of 3½ per cent. per annum for that period only from 1st inst.

Entd. for Bank

Manager.

From the above form it is seen that a fixed rate of interest is allowed; but the London banks do not follow this rule, because the London rate is a varying one dependent upon the Bank of England rate of discount.

All sums received and paid on deposit account are entered in a day book ruled as follows :—

	Received.					Paid.			
		£	s.	d.			£	s.	d.

The deposit receipt book would be as follows:—

Date.	Number.	Name and Address.	Amount.			Interest Paid.			Total with Interest.			Date of Payment.
			£	s.	d.	£	s.	d.	£	s.	d.	

The amount received can be credited in the usual way through the cash book, or by means of an entry in the day book or journal.

If the depositor has a current account this account is debited and deposit account credited. The two entries in the journal would be as follows:—

Dr.			Cr.
To Deposit Account— John Jones -	£1000	By Current Account— John Jones -	£1000

In the above case the balances of the deposit accounts are increased and current accounts correspondingly diminished.

The deposit ledger would show a separate account for each depositor.

JOHN JONES.

Date.		£	s.	d.	£	s.	d.	Date.		£	s.	d.	£	s.	d.
1897 Jan. 9	Credit Drawing Account	1000	0	0				1897 Jan. 9	Deposit	1000	0	0			

The outer columns are used for extending the amounts either monthly or half-yearly. The interest paid is either a fixed rate or dependent upon the Bank of England rate of discount and is credited quarterly or half-yearly. If, however, the deposit is withdrawn at a short period, the interest is paid and shown in the day book.

The entries would also be shown in the general ledger, and the cash in hand at the end of the day would be diminished by the amount paid.

If the depositor has a current account the interest is credited to the same, and the interest account in the general ledger debited

CHAPTER VII.

THE CLEARING SYSTEM.

THE importance of our clearing system to banking and commerce cannot be overestimated. Large amounts of capital are transferred from one bank to another by a system of exchange without the intervention of coin or bank notes.

A large proportion of cheques drawn in this country find their way either to the Clearing House in London or to other institutions in large commercial centres where the interchange of cheques takes place by means of a series of transfers.

For example, a bank C holds cheques upon banks D, E, F, which have respectively cheques upon C. By means of a transfer cheque upon a given bank at a central establishment the differences are paid.

This is illustrated as follows :—

C.		D.		E.		F.	
Cheques.		Cheques.		Cheques.		Cheques.	
£10	upon D.	£5	upon C.	£11	upon F.	£12	upon E.
15	„ E.	7	„ E.	8	„ D.	5	„ D.
30	„ F.	18	„ F.	6	„ C.	20	„ C.
£55		£30		£25		£37	

C.'s Account.

Dr.		Cr.
£5	D.	£10
6	E.	15
20	F.	30
£31		£55

In the above case Bank C has to receive £55 and pay £31; the balance therefore owing to C is £24. The central establishment where the transfer takes place is called the Clearing House, and the bank upon which transfers are made is the Bank of England.

Each bank has a drawing account with the Bank of England, and therefore C's account is credited with £24.

In a similar manner the accounts of D, E and F are balanced.

Cheques on clearing banks are usually entered separately upon the "paying-in" slips, so that the amount of the cheques can be at once entered in the clearing column of the waste book, and then the cheques are given to the "out" clearers. The book kept by the "out" clearers is ruled with columns, and at the top of every column or columns is the name of every bank at the Clearing House. The same process is being carried on at the Clearing House, where the "in" clearer receives from the banks all cheques drawn upon the bank he represents.

At the end of the day the balance is struck, and if

the bank has to receive any amount on the day's transaction the clerk writes a green ticket as follows :—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON,
1*st January*, 1897.

To the Cashiers of the Bank of England.

Be pleased to *credit* our account the sum of £10,000 out of the money at the credit of the account of the clearing bankers.

£10,000.

Seen by me,

Inspector of the Clearing House.

BANK OF ENGLAND,
1*st January*, 1897.

The account of bank has this evening been credited with the sum of £10,000 out of money at the credit of the account of the clearing bankers.

£10,000.

For the Bank of England.

If the bank has to pay on account of the difference a white form is made out as follows :—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON,
1*st January*, 1897.

To the Cashiers of the Bank of England.

Be pleased to transfer from our account the sum of £10,000 and place it to the credit of the account of the clearing bankers and allow it to be drawn for by any of them (with the knowledge of either of the inspectors signified by his countersigning the drafts).

£10,000.

BANK OF ENGLAND,
1*st January*, 1897.

A transfer for the sum of £10,000 has this evening been made at the bank from the account of to the account of the clearing bankers.

For the Bank of England.

£10,000.

This certificate has been seen by me.

Inspector.

At the London Clearing House there are three clearings daily in order to facilitate the work of the banks.

The first one, at 10·30 A.M., is for the purpose of clearing bills due and payable at banks which are represented at the house, and also cheques and drafts received too late on the previous day.

The second commences at 12 noon for the purpose of clearing country cheques which are paid by London agents.

The third or afternoon clearing commences at 2·30 and closes at 4. All cheques and drafts paid in during the day are sent to be cleared.

With regard to the work involved, it must be remembered that all the "out" clearing should agree with the clearing columns of the waste book, and the "out" clearing books must also agree with the "in" clearing books of the banks at the house.

In the same manner the clearing cheques received from the house should agree with the paid cash books at the bank, and also with the "out" clearing books of the various banks.

It must be clearly understood that clearing books are only subsidiary to the received and paid cash books of every bank.

The country clearing which represents cheques payable in the country, is effected in a similar manner. The balance to be received or paid on this account is shown on the daily clearing balance sheet at the house.

The country clearing has increased enormously in London because of its efficiency and saving of labour.

A country bank, instead of sending cheques to the various banks on which they are drawn, forwards them to the London Agent, to be cleared through the medium of the Clearing House. When the cheques are received at the London Bank, it is necessary to sort them, in order that they may be delivered to the banker at the Clearing House, who remits them for payment to those banks for which it acts as London Agent.

The cheques are then sent by each bank to the various country banks, and are paid at the Clearing House on the third day after their delivery.

A great saving of labour has been effected in recent years by the use of Burrough's registering machines, by which the amount of cheques is not only type-written, but added up. Thus the clerk at any time by pulling a lever, can ascertain the amount of any number of cheques. The fatigue necessarily involved in adding or casting a large number of amounts is obviated. The total transactions of the day at the Clearing House are shown as follows :—

CLEARING BOOK.

Received Clearing.			*Paid Clearing.*	
Received Country Notes for Collection - -		£600		
Barclay - - - -		£200		
Lloyds - - - -		100		
London and Western -		300		
		£600*		
Morning Clearing			Paid Cash Books -	£99,200
Bills - -	£5,000		Paid Notes - - -	400
Cheques - -	10,000		Returns - - - -	350
		£15,000	Clearers' Difference -	50
Received Cash Books -		70,000		
Bank of England - -		15,000		
		£100,000		£100,000

From the above we notice that the two sides of the account balance, which is effected by paying or receiving an amount from the Clearing House. We have already stated that each bank has an account at the Bank of England, and therefore the balance is adjusted by a debit or credit entry. In the account shown, the bank's account is debited at the Bank of England. The country bank notes paid by the London agent are shown, because a clearing slip is given to those banks which present them for payment, and in order to balance the account the amount must be shown in the daily transactions.

It would be almost impossible to agree at once the

* This amount is included in the Received Cash Books, but as clearing slips are given a record of the total is shown.

daily work, and therefore each bank has a difference account, so that in case of wrong entries the daily balance can be effected by a debit or credit entry. Of course this difference must be found and adjusted at a later date.

In the bank the work of the clearing is done by clerks known as "in" and "out" clearers.

The "out" clearer receives the cheques from the received waste book clerk and sorts them in alphabetical order of banks on which they are drawn. The cheques are then entered under the respective headings of each bank and handed to another clerk, who delivers them to representatives of the banks at the Clearing House. If the "out" clerk wishes to make a casting of a certain number, he reverses one, which is a notice to the "in" clearer at the house that a casting has been made. This of course facilitates the work of agreeing at the end of the day, when the books are sent to the house for that purpose.

In the same manner the "in" clearer at the house receives all cheques drawn upon his bank, and enters them under the respective headings of the banks which deliver them. His book must agree with the totals of the banks which deliver the cheques, and also with the paid cash books of his own bank.

Although the Bank of England presents cheques to the clearing banks at the Clearing House, the Bank does not receive cheques drawn upon it. The

London Bank therefore sends such cheques for their credit to the Bank of England several times during the day. This of course makes a great difference in the amount to be paid at the Clearing House, and therefore it often happens that the banks are debited, whereas in reality the balance would be on the other side if the cheques on the Bank of England were included.

For example, banks A, B, C and D might show a difference of £1,000,000 against them, but the same banks have sent for their credit at the Bank of England cheques for £1,000,000; the accounts would therefore be adjusted by credit and debit entries for the said amount.

CHAPTER VIII.

BILLS OF EXCHANGE.

BILLS of exchange are utilised for the purpose of payment of debts due from one person to another, and consequently a large number of commercial transactions are settled by means of these credit documents. As a natural consequence, we should expect to find them negotiated through the medium of banks.

They can be divided into two classes, *viz.*: those left for the purpose of collection and those which are discounted, that is, the bank purchases from the customer such bills on the understanding that he pays interest for receiving the amount at once instead of waiting for the bills to become due.

It is usual to keep the two classes of bills separate, although they require the same method of treatment. Bills discounted are, however, entered in the loan and discount ledger, so that the total amount of this particular class of business can be shown. We shall treat of these bills when we consider the lending of the resources of the bank.

With regard to bills which are remitted from

country banks, or those which are paid in for the credit of customers' accounts and designated "short" because they mature in the course of a few days, it is necessary to enter them in a "Bills Receivable Book," which is a record of the amount, name of acceptor, and due date of the bill.

From this remittance or bills receivable book, the bills are credited to an Impersonal Account in the ledger called "Bills for Collection," and when paid are debited to this account.

Thus the process at the maturity of a bill would be that bill account is debited and the customer's account is credited. A complete check on the ledger account can be obtained by marking it off from the bills themselves.

Instead, however, of bills being entered in a Bills Receivable Book, they can be entered direct in the Bill Ledger. Each customer who forwards bills for collection would have an account in the Ledger as follows:—

Date.	When due.	Amount.			Acceptor.	Dr.	Cr.	Balance.		
		£	s.	d.			£	£	s.	d.
		50	0	0						
		100	0	0						
		200	0	0						
							350	350	0	0

The totals of each remittance would be shown in the credit and extended in the balance column.

The bills are then entered in a diary or journal which has a separate opening for each day of the year.

The diary or journal would be as follows:—

Ledger folio.	Name of Acceptor.	Folio.	Name of Customer.	Amount.		
				£	s.	d.

When the bills are paid the current account ledger folio is inserted in the diary. A folio number is stamped upon each bill and refers to the page in the bill ledger where it is first entered.

Thus all bills received either from town customers or country correspondents are entered in these books.

The total amount of bills held is shown by the impersonal account in the ledger entitled "Bills for Collection".

The daily totals of bills remitted which have been credited to customers' account in the Bill Ledger are now debited to this account.

A corresponding entry of the totals of daily payments from the cash book is made as follows: Bill Ledger Accounts being debited and the "Bills for Collection Account" being credited.

All the bills are sorted away in cases, so that at maturity they can be marked off against the diary or journal, and presented for payment.

On the maturity of the bills they are credited to the customers' account in the ledger from the diary or journal, and are also entered in the cash book. If paid through the Clearing House, the bank's total would be increased by the amount of bills paid.

Bills payable in the country are entered in a separate diary, and are sent for collection a few days before they mature. A record of the transaction is shown in a separate book, and when the proceeds are received, the customers' account must be credited in the usual manner.

The bills for collection book would be as follows :—

Folio.	Acceptor.	Place.	Amount.			Paid.	Date.
			£	s.	d.		

Another book is necessary in recording bill transactions, and that is the overdue bill book.

This book contains particulars relating to these documents.

Name.	Amount.			Notarial Charges.			Interest.			Date when Paid.
	£	s.	d.	£	s.	d.	£	s.	d.	

The unpaid bills are usually re-presented by a notary for the purpose of being noted or protested for non-payment. If paid, the notarial charges are included in the amount and shown in a column ruled for that purpose.

The amount of unpaid bills is debited in the day book, and thus forms a contra entry to the credit entry made from the diaries.

As the bills mature, they are marked off against the diaries, and it would be almost impossible for bills to be overlooked at maturity, because the amounts are entered direct into the cash books, and consequently the daily balance would be incorrect if the bills were not presented for payment.

CHAPTER IX.

DISCOUNTS AND LOANS.

THE discount of bills and loans to customers is perhaps the most important work in a bank, because the prosperity of each institution is largely dependent upon the care and discretion exercised by the manager and directors in lending the resources entrusted to their charge.

Again, the profits made chiefly consist in the amount of interest received on borrowed capital, and are also dependent in some degree on the amount of bad debts incurred through injudicious loans to customers.

We have already considered what books are required when bills of exchange are lodged for the purpose of being credited at maturity.

A similar set of books is used for bills discounted. For example, they are entered in diaries according to dates of maturity and also into a ledger.

The discount ledger is as follows :—

JOHN EVANS.

Date.	Acceptor.	Date when Due.	£	S.	D.	£	S.	D.	Date.	Acceptor.	Date when Paid.	£	S.	D.	£	S.	D.

The amounts of bills discounted would be entered in the day book and the interest debited.

In order to provide a check for the entries in the discount ledger, the bills are also entered in the Discount Day Book, which contains a full description of the bills similar to the ledger. When they mature, the dates of payment are inserted from the Day Book

Sometimes the bills are entered in another book called the Acceptors' Ledger. In this book a separate account is opened for every acceptor to bills discounted by the bank, so that the amount held on any particular name can at once be seen.

This ledger is very useful, because it can check the entries in the discount ledger.

Where the transactions are large on loan account a separate cash book is used for all discount and loan transactions.

The totals of this book are carried into the day book, but the loan entries are entered in reverse order, because when a loan is granted some account is debited in the discount ledger and credited in the day book as follows :—

DISCOUNT CASH BOOK.

Loan paid off - - -	£600	Loans, granted J. Jones,	
Bills discounted—		on demand - -	£500
Paid - - - -	2000	Bills discounted - -	1000
	£2600		£1500

DAY BOOK.

Discount Cash Book, total	£2600	Discount Cash Book, total	£1500
J. Jones—		W. Brown—	
Loan on demand - -	500	Loan paid off - -	600

The amount of £2000 received for bills discounted would be shown in the total cash received during the day.

For example, if the bills are payable at clearing bankers, the total to be received would be increased by the above amount.

Bills discounted for customers which amount to £1000 would be credited to their accounts in the cash books.

All loans made to customers are entered into the discount and loan ledger. We then have the customers' account credited and discount ledger debited.

In connection with the discount of bills, a record is kept of the names which appear on them as acceptors or indorsers.

For example, a book would be kept as follows:—

JOHN EVANS.

Bill discounted, £500.

Drawer.	*Acceptor.*
William Smith.	F. Williams.
Banker's Report.—Respectable and good for the amount named.	*Banker's Report.*—Large capital and highly respectable.

By means of these reports it is easy to see at a glance the methods of business and the character of John Evans' financial transactions.

Loans are made on different kinds of securities, and it is necessary to see that loans are properly secured. If on bonds to bearer it is usual for the borrower to sign an agreement, which may be as follows :—

".....Bank.

"*1st January*, 1897.

"In consideration of your advancing to me One hundred pounds on loan until the 1st July next, I deposit with you £300 Chilian 5% Bonds as collateral security for the due repayment of the said loan and interest at the rate of per cent. per annum, or at such rate of interest as may hereafter be agreed upon; the present market value of the said securities is £..... This value during the continuance of the loans I engage to maintain, and if the market price of the said securities decline, I hereby agree to deposit other approved securities, or to pay off a proportionate amount of the said loan before its maturity, should you consider it necessary.

"Unless I am able to fulfil these conditions, I hereby authorise you to realise at any time the said securities, or any part thereof; and in the event of the loan not being repaid when due, I authorise you

to deal with the securities as you think desirable, so as to repay the said loan or any part thereof with interest and expenses.

"These securities are to cover any other sum or sums of money which I may at any time, either alone or jointly with any other person or persons, be indebted or liable to you while the securities or any part thereof may remain with you."

6d.	Stamp.

If shares are deposited as security, the usual course is to transfer them into the name or names of the manager or other head officials of the bank. A majority of English companies accept what is known as a "common" form, which is as follows:—

"I, JOHN JONES,
of Sheffield,
in consideration of the sum of Five Shillings paid by EDWARD JENKINS
of Newcastle-on-Tyne,
Gentleman,
hereinafter called the said Transferee,

"DO hereby bargain, sell, assign and transfer to the said Transferee:—

of and in the undertaking called the

TO HOLD unto the said Transferee ,
Executors, Administrators and Assigns, subject to the several conditions on which held the same immediately before the execution hereof; and the said Transferee , do hereby agree to accept and take the said , subject to the conditions aforesaid.

"AS WITNESS our Hands and Seals, this Day of in the Year of our Lord One Thousand Eight Hundred and Ninety

"Signed, sealed and delivered by the above-named, in the presence of

"Witness to sign here. { Signature, Address, Occupation,

"Signed, sealed and delivered by the above-named, in the presence of

"Witness to sign here. { Signature, Address, Occupation, ."

When shares are transferred at a nominal consideration the deed must be impressed with a 10s. stamp, but when the consideration exceeds a nominal amount the stamp duty is as follows:—

Exceeds £5	and does not exceed	£10	- 1s.
£10	,,	£15	- 1s. 6d.
£15	,,	£20	- 2s.
£20	,,	£25	- 2s. 6d.
£25	,,	£50	- 5s.
£50	,,	£75	- 7s. 6d.
£75	,,	£100	- 10s.

and 2s. 6d. for fractions of £25 up to £300, and then for every £50 or fractional part thereof 5s.

However, it may not be considered necessary to transfer the shares, and in such cases the transfer is stamped with a nominal consideration of 10s. per cent., and duly signed by the transferor. At any time the bank is then in a position to transfer the shares into such name or names as it requires.

Sometimes a loan is granted against the guarantee of some other person, called the guarantor, who is required to sign a form which may be as follows:—

"In consideration of your advancing to John Jones the sum of Five hundred pounds for three months, I hereby agree to hold myself, my executors and administrators responsible for the due repayment of the same or any unpaid portion thereof, together with interest at the rate of 4 per cent. per annum, and I undertake to pay you the amount which may become due to you under this guarantee upon your demand".

This guarantee should be impressed with a sixpenny stamp at the Inland Revenue Office.

A banker may have customers who require the loan of capital in order to pay for goods purchased in other countries, and consequently we get advances made upon documents representing goods, either on board ship or possibly landed at some warehouse previous to sale. Of the first kind we have Bills of Lading, which may be drawn in four parts, *viz.*, one sent by the ship, the second sent by post to the consignee, the third to an agent or factor of the shipper in the same country as the vendee, and the fourth is retained by the shipper. Bills of Lading represent goods shipped to another country, and the master of the ship is bound to deliver the goods to the first person who presents the said documents.

The following is an example of a Bill of Lading:—

"Received in apparent good order and condition from the Willis Oil Company, to be transported by the good steamship *Kaiser*, now lying in the port of New York and bound for Hull, England, with liberty to call at Gravesend and any port or ports to land or embark pilots:

JONES & SONS, *Agents.*

.. ..Line of Steamers.

Shippers' marks, J 31/60.

80 Barrels at 4s. £6 0
5 per cent. primage 0 6
Charges £6 6

"Thirty (30) barrels lubricating oil, being marked and numbered as per margin shippers' weight (quality, contents and value unknown), and to be delivered in like good order and condition at the port of Hull (or so near thereto as she may safely get) unto order or to his or their assigns. Freight, primage and charges to be paid in cash, without discount, on the said goods on discharge at the rate of four shillings sterling per barrel as per margin, delivered with primage and charges as per margin. General average payable according to York-Antwerp Rules, 1890. And, finally, in accepting this bill of lading, the shipper, owner and consignee of the goods and the holder of the bill of lading agree to be bound by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such shipper, owner, consignee, or holder.

"In witness whereof the master or agent of the said ship hath affirmed to two bills of lading all of this tenor and date, one of which being accomplished, the other to stand void.

"Dated in New York this first day of October, 1897.

"JONES & SON,
"for the Master."

The Bill of Lading contains a series of agreements respecting the liability of the carrier with regard to the goods.

A bank should never take Bills of Lading as security without their being indorsed in blank, and they should be accompanied by a policy which insures the goods to London or elsewhere. A great number of Bills of Lading are continually received in the London banks, for various purposes.

For example: Bills of Lading are remitted to a bank with instructions to deliver the same against payment.

Again Bills of Exchange are received with Bills of Lading attached, and the Bank has to send them to a foreign country where they are given up against payment.

Another class of business in which these documents are utilised would be as follows: A Bank in New York instructs its London agents to open a credit in favour of a firm in Germany, which is allowed to draw bills upon the London bank. The latter agrees to accept the said bills upon the production of certain Bills of Lading, which when received, are remitted to New York and the account debited for amount paid. As London is the financial centre of the world, a great number of transactions, similar to those described, are continually taking place.

Another illustration as to Bills of Lading forming a part of banking operations would be as follows:—

A merchant in Ceylon has purchased some tea from the grower, and in order to pay for the same obtains

a loan from a bank. The tea is shipped and the Bills of Lading are held by the bank as security.

The merchant informs his agent in London that he has drawn a Bill of Exchange and requests the bank to deliver the Bills of Lading on payment of the amount. When the tea arrives in London, the importer instructs a broker to sell it at public auction, and requests the Eastern Bank which has received the Bills of Lading from its Ceylon branch, to deliver the said documents on payment of the specified amount. In order to do this, the broker obtains a loan from his bank, so that the tea is now vested in another institution. When this transaction is completed, the broker obtains the Bills of Lading from the bank in order to obtain Dock Warrants, which are prepared by the wharfinger or warehouse keeper where the tea has been lodged.

The security held by the bank is now represented by these Dock Warrants, which we shall describe.

Whenever a sale of the tea is effected at public auction or otherwise, the Warrants are obtained from the bank and the loan paid off. This form of banking operation would be similar for any other class of goods shipped to this country.

A Dock Warrant may be defined as a document which is the evidence of the title of any person therein named or his assigns, or the holder thereof, to the property in any goods, wares or merchandise lying in any warehouse or dock or upon any wharf,

and signed or certified by or on behalf of the person having the custody of such goods, wares or merchandise.

The Inland Revenue duty upon a dock warrant is 3d.

A Prime Warrant is issued when only one warrant is issued for the whole parcel before sale.

A Weight Note is a similar document to a warrant except that the word "warrant" appears on one and the words "weight note" upon the other.

The following is a copy of a Weight Note :—

"Warrant. "..... Wharf.

"No.

"Lot.

"Weight note for six chests of Ceylon tea entered by.....Tea Company on the 20th August, 1897, and declared to be imported in the steamship *India*, Captain Jones, and sold by W. Robinson & Son at public sale, 3rd September, 1897, subject to the following conditions :—

"Prompt 6th December, 1897.

"Rent commences 7th December, 1897, and all other charges from the date of the warrant."

Mark.	Dock Numbers.	Customs Landing Weights.		..... engage to deliver to ..... or order the Warrant issued by the Proprietors for the goods hereon named upon complying with the conditions of sale and paying the balance of the purchase money on or before the expiration of the Prompt.
		Cwts.	Lbs.	
		6	4	
	Tare -	1	26	
	Customs Net -	4.3	6	
	Sale Net - -	4.3		

A Warrant for the above-mentioned goods having been issued, no delivery will be made without the production of such Warrant, and this Weight Note. The holder is entitled to the Warrant upon complying with the conditions of sale.

After the expiration of the prompt, this Weight Note will be of no validity.

Weight notes are not issued with prime warrants.

The prompt is the date upon which the buyer must tender the balance of the purchase money.

When warrants are deposited as security for loans, the prompt date mentioned thereon must be carefully noticed, and if the date is past, the clause with reference to the Weight Note may be altogether disregarded. The Weight Note having been issued no delivery would be made under the warrant before the expiration of the prompt, without production of such Weight Note.

A Delivery Order is an authority to obtain goods

lodged at a wharf by the importer and must be stamped with a 1d. stamp.

The duty on a delivery order must be paid by the person to whom it is given, and should be presented without delay at the warehouse in order to obtain delivery of the goods.

The dock warrant is as follows:—

.....Wharf.

1*st January*, 1897.

WARRANT
for Tea sold at Public Sale.

Ledger.

Warrant for 6 Chests of Ceylon Tea declared by the Importers to be - - - - - } Pekoe.

Ship *Kinfuck* from Colombo.

Lot..... .....1897. Rotations.	
Warehouse. 160	Customs. 7640

"Entered by C. T. Jones, 15th July, 1897, and sold by Geo. Brown & Co., 1st January, 1897. Deliverable to Geo. Brown & Co.,.....or assigns by indorsement hereon. Rent commences on..... at.....per package per week and all other charges.

"Prompt.....*March*, 1897."

Observe: A weight note for these goods has been issued and no delivery will be made under this warrant before the expiration of the prompt without the production of such weight note. The possessor of the weight note is entitled to this warrant upon complying with the condition of sale and paying the balance of the purchase money as expressed

Marks.	Nos.	Gross Landing Weight.			Customs Tare.	Sale Draft.	Deliveries.				
							Date.	Nos.	On whose account and signature of bearer.	Conveyance.	Clerk's Initials.
		cwt.	qrs.	lbs.	lbs.	lbs.					
Fruit Hill.	2750	1	0	12	26	1					
	2751										
Clerk.	Tare										
	Net					Per pro				.....Wharf	

on the weight note on or before the expiration of the prompt. After partial deliveries, this warrant will be returned and the bearer thereof entitled to the remainder of the teas.

When the warrants are lodged at the bank as security for a loan, the merchant signs an agreement as follows :—

"In consideration of your advancing to me the sum of Five Hundred Pounds on loan until the..... day of.....next, I herewith deposit warrants for the under-mentioned goods, which are insured under policy No.....in the.....Office for £.....until .....as collateral security for the due payment of the same with interest at the rate of.....per cent., and in case I am unable to pay the above-mentioned loan and interest when due, I hereby authorise you to sell the said goods or any other goods of which the warrants or delivery orders may be substituted, either by public auction or private contract, and in such lot or lots as you may think fit, and out of the net proceeds to pay the said loan and interest and any other moneys then due to you.

"I hereby engage to renew the aforesaid policy of insurance when necessary, and in the event of my not doing so, I hereby authorise you to insure the said goods and debit me with the premiums thereon, and to repay yourselves out of the proceeds.

"The present market value of the said goods is..... and this value during the continuance of the loan I

engage to maintain, and in the event of the market price declining I hereby agree to deposit other approved security, or to discharge such portion of the loan as you may require; otherwise you are at liberty to realise in the manner above stated.

"This security is to cover any sum or sums of money in which I may be indebted or liable to you, while any goods or warrants or.....remain in your possession and either on joint or separate account."

6d. Stamp.

Ship Marks and Numbers.	Merchandise.	Net Weight.	Price.			Value.		
			£	S.	D.	£	S.	D.

If loans are granted against the deposit of title deeds, a memorandum of deposit is signed, stating that the deeds are deposited as security for the repayment of a stated sum, and also for any sum or sums which may hereafter be left. It also states that the depositor will undertake to execute, when required, a legal mortgage. This document is known

as an equitable charge and requires to be stamped 1s. per cent. If, however, an equitable mortgage is effected, the deeds must be stamped at the rate of 2s. 6d. per cent.

The following is an extract from the Stamp Act, relating to equitable mortgages with deposit of deeds :—

> "The *ad valorem* duty chargeable upon a mortgage under the Stamp Act of 1870 shall cease to be payable upon an equitable mortgage effected by an agreement or memorandum under hand only relating to the deposit of any title deeds or instruments constituting or being evidence of the title to any property whatever (other than stock or marketable security) or creating a charge on such property, and, in lieu of such duty, every such agreement or memorandum shall be charged with the duty of one shilling for every one hundred pounds and any fractional part of one hundred pounds of the amount secured by the equitable mortgage ".

An equitable charge is a valid document and the only difficulty in connection with it, is that the holder may be obliged to institute legal proceedings in order to get completion of the deed of mortgage which the depositor agreed to execute.

Of course, with an ordinary mortgage, no further

action would be necessary, because the depositor has already executed to the bank a mortgage in its favour.

If advances are made on the security of Life Policies, it is necessary to give notice to the Insurance Company that they have been assigned, when the following forms would be used:—

"*To the Secretary and Directors*
of the.....Insurance Company.

"GENTLEMEN,

"Please take notice that by an instrument bearing date ..... 1897, and for the consideration therein mentioned, JOHN THOMAS, of..... assigned to us the policy of assurance for £1000 effected on his life in the above company, dated 1st July, 1897, numbered 10,560. An acknowledgment of the receipt of this notice (for which I enclose the statutory fee of 5s.) will oblige.

"For the ..... Bank,
"*.....Manager.*"

The person who deposits the policy signs the following agreement:—

"*To* ..... Bank.

"Referring to the deed of assignment of the policy set out in the schedule below this day executed by me in your favour, I hereby agree and undertake in consideration of the moneys due from me to the bank, to keep the premium on the said

policy duly paid, and to produce the receipts for the same if and when called upon.

"The schedule referred to
£1000, annual premium £30.

"JOHN THOMAS."

This document must be impressed with a 6d. stamp.

The assignment would be as follows, and it must be stamped with the *ad valorem* duty which depends upon the consideration money.

"I.....of.....in consideration of the sum of.....do hereby assign unto A..... B..... the two several policies of Assurance for Five Hundred Pounds each, effected on my life with the ..... Life Assurance Company, dated 1st July, 1897, and numbered respectively .....

"As witness my hand and seal this ..... day of September, 1897.

"Signed, sealed and delivered
"by the above-named .....
"in the presence of ....."

On receipt of the notice of assignment the Insurance Company acknowledges the receipt as follows:—

"..... Company.
"Policy No. .....

"SIR,

"I beg to own receipt of your favour of the..... inst., intimating that by an instrument bearing date

..... July, 1897, Mr. ..... assigned the above policy to you.

"We have duly recorded the intimation in our books, but in acknowledging that we have done so no opinion or admission on the part of the Company is to be implied as to the validity or legal effect of the deed.

"The statutory fee of 5s. is to hand."

We have described the principal documents used when securities are lodged with banks for the due repayment of money lent. With regard to others, such as loans on leaseholds, ground rents, works, machinery, mines, the documents required would be somewhat voluminous and are therefore omitted.

Again, loans on the uncalled capital of a registered company, or upon its debentures, would require special forms prepared by the bank's solicitors.

The most improtant point to be remembered in connection with loans and advances is that the security offered should be a marketable one and capable of being transferred to the bank without much difficulty or expense.

CHAPTER X.

THE AGENCY OF COUNTRY AND FOREIGN BANKS.

THE London Banks act as agents for country and foreign banks, so that every banking operation which must be carried out in the metropolis is effected by the London Agent. Thus country bank notes are paid, and cheques and bills payable in London are collected by the said correspondent.

The transactions are somewhat different from those we have already described.

In order to give some idea of the work performed by the Agent we give a specimen letter from a country bank, which is usually in the following form :—

"GENTLEMEN,

"We wrote to you on the.....and have since received your letter of the same date.

"We now enclose for the credit of the Bank, bills, etc., value £10,000 and notes £500—total £10,500, also country cheques value £12,000 for our credit.

"Please honour the enclosed list of drafts, amount £5000, and acceptances, amount £2000, as per lists enclosed.

"Please make the payments as stated.

"Purchase £5000 consols in the name of John Steady, of High Street, Plymouth, Gentleman, and take out power of attorney for sale of £1000 West Australian three per cent. Stock in name of William Keen, of Penzance.

"We enclose signature of Thomas Jones, whose drafts to the extent of £2000 we wish you to honour to our debit.

"Please inform us as to the position and means of William Jenkins of Southwark.

"We are,

"Your obedient Servants,

"EVANS, JONES & Co."

The London Agent would reply as follows:—

"We have received your favour of yesterday's date, enclosing the following remittance which is placed to the credit of your account.

Bank Notes -	£500
Bills, etc. - -	10,000
	£10,500

also country cheques for clearing £12,000.

"A statement of cash received on your account is enclosed.

"We have purchased £5000 consols in name of John Steady, and enclose the broker's note as well as P/A in name of William Keen.

"We note your instructions with regard to Thomas Jones' drafts.

"We are,

"Your obedient Servants,

"..... Bank.

"..... *Manager.*"

From the above letters we notice that the correspondence should be concise, but at the same time the instructions must be perfectly clear.

In order to carry out the work connected with the agency of a country bank it is necessary to have books similar to those in use for current accounts. Thus the cash-book would include the remittances daily received from the country bank for its credit, and also the total of credits received over the counter. If the particulars of the latter are entered in a supplementary cash-book, it is not necessary to enter each credit separately in the ledger, but simply to post the total, and send the country bank a daily statement called the cash account.

The country banks usually issue drafts upon the London agent either on demand or at seven days, fourteen days or other stated periods.

When the advice sheets are received the particulars are entered in the Advice Book as follows :—

Date.	Drawee.		When Due.	When Paid.	Accepted.	
	Evans, No. 6500.	14 Days.	1st March.	1st March.	A	100

As the drafts mature they are discharged in this book.

The London Bank also accepts bills drawn upon it by the country correspondent. The lists are entered in a separate book, and when accepted a record is made of the transaction.

It is also the usual practice to pay bank notes issued by country banks; the issue of these notes is defined by what is known as the Bank Act of 1844. Each bank is allowed to issue only a specified amount, and returns of the amount in circulation must be made at Somerset House. When such notes are presented for payment in London, they are entered in the paid note cash-book. If presented by a clearing bank a clearing slip is given in exchange and the amount paid through the clearing. The notes are sent daily to the country bank, and are usually re-issued.

All stock transactions are recorded in the books kept in the stock department, so that reference can be made at any time to stocks bought and sold on behalf of country banks.

A statement of the cash account is sent daily to the country bank, because amounts received must be included in the day's transactions of the said institution. With regard to the work carried on at the country bank, it would be similar in character to what we have already described, with the exception of the account in the Ledger headed "London

Agent Account" being kept in reverse order to that in the books of the Agent who is debtor to the country bank for cash in various forms remitted for collection.

London banks, also act as agents for foreign banks, and naturally the work in this capacity is of a different character. This is illustrated by the term "acceptances" which we sometimes find in the balance-sheets.

The Foreign Bank draws bills upon the London Agent, and the latter accepts such documents when presented for that purpose.

The following is a specimen of a foreign bill :—

"BUENOS AYRES,
"1*st July*, 1897.

"£10,000.

"Ten days after sight pay this first of exchange (second and third of the same tenor and date being unpaid) to the order of John Williams & Sons, Ten thousand pounds, value received, and charge the same to account of as advised.

"THOS. BROWN & Co.

"*To*..... Bank,
"London."

The London Bank accepts such bills, and as they mature debits the foreign correspondent with the amount. As a protection in case the correspondent is not able to meet such drafts at maturity, or if it is

not intended to pay the amount until some time after, the London Bank requires approved securities to be deposited to cover such advances. In a balance-sheet it is usually stated that the acceptances are fully covered by securities.

Bills drawn on London are a very important factor in the commercial transactions of the world. All goods shipped to this country are paid for by means of these credit documents, and *vice versâ*, goods shipped from this country are paid for by bills drawn upon commercial firms abroad.

Thus we have two sets of bills in constant circulation, and according as a demand or the reverse is experienced for remittances to pay for goods, we get fluctuations in what is known as the Foreign Exchanges. The value of the sovereign expressed in foreign money is continually fluctuating, because although gold is the medium for settling payments, yet every one is anxious to avoid sending it and prefers purchasing bills for the purpose of payment of debts.

The subject of the Foreign Exchange requires careful study, but the effect of fluctuations is shown in the work of a bank, which varies with the number of transactions, and these are largely dependent upon the trade of the country.

CHAPTER XI.

STOCK DEPARTMENT.

THE work of this department consists in taking charge of the securities belonging to the bank and also those deposited for safe custody by its customers.

In connection with this work the purchase and sale of stocks and shares are effected through the bank's stockbrokers.

The Investment Ledger belonging to the bank would have a separate account opened for each investment. Thus if Cape of Good Hope four and a half per cent. Bonds were purchased, an entry is made and at the end of the half-year the value of the Bonds would be taken; the difference between the purchase price and the market price is then carried to an account called the profit and loss on investments. The ledger would be ruled in the usual way, with an extra column on each side in order that the interest payments may be shown. Thus the debit side would be debited with the half-yearly interest, and when received would be credited to the account in the General Ledger of "Interest and

Dividends on Investments". The credit side would be credited to the debit of cash when received.

As a rule the market value of an investment showing a profit is not taken into account until the stock is actually sold. When the investment forms part of the Reserve Fund of the Bank, the usual practice is to give a certain fixed value.

With regard to securities belonging to customers, the book-keeping would be somewhat similar to that used for ordinary accounts. Thus the Day-Book would show the daily transactions of securities received and delivered. The Bond-Ledger would give full particulars of the securities lodged, and be kept on the same principle as a current account ledger.

The ledger would be as follows:—

Date.	Numbers of Bonds.	Name of Bonds.	Amount.			Date when Delivered.	Amount.			Balance.		
			£	S.	D.		£	S.	D.	£	S.	D.

When inscribed stocks are purchased for customers, it is customary to keep a record of the particulars of each transaction in books kept for that purpose.

As an illustration we may take the Consol Book, which gives particulars relating to that stock as follows:—

EDWARD JENNINGS, OF LINCOLN, GENTLEMAN.

Date.	Bought.			Sold.			Balance.			Record of Powers of Attorney.
	£	s.	d.	£	s.	d.	£	s.	d.	

Similar books would be kept for other stocks.

In order to obtain dividends on stocks inscribed at the Bank of England, lists must be prepared from the stock books, giving the full name of each stockholder and the amount of stock held by him. These lists are left at the Bank of England, some time before the dividends are paid, for the insertion of the amounts of the dividend. When this has been done, the lists are returned so that the amounts may be entered on a duplicate list from which customers and country accounts are credited when the dividends are due.

The Bank of England credits the bank's account with the total amount of the dividends when due.

This method of payment enables the Bank to avoid the trouble and expense of printing dividend warrants for each stockholder, and this is of great importance when we consider that there are about 170,000 accounts in Consols alone. Other banks which act as registrars for stocks do not require lists to be prepared but send the dividend warrants direct to the banks, and if there are a great number payable to one bank only, one cheque is sent accompanied by a

statement showing the amount of stock and dividends due to each shareholder.

A great number of dividends are paid by railway and other companies direct to banks, which is a great convenience to shareholders who have banking accounts. Thus the risk of receiving warrants and transmitting them to the bank is obviated.

With regard to bearer securities lodged by customers for safe custody, the coupons attached to bonds and debentures must be collected when due. A waste book is kept for this purpose as follows:—

INTEREST DUE 1ST APRIL ON BRAZILIAN FOUR PER CENT. BONDS.

Name.	Amount.			Dividend.			Tax.			Net Amount.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Wm. Evans - - -	500	0	0	10	0	0	0	6	8	9	13	4

The coupons are detached and the total amount of stock must agree with the entries in the Stock Ledger. When the cheques for dividends are received, the various accounts are credited by means of credit entries in the Cash Book.

The entries are compared with those of the previous half-year, and then by adding or deducting the amount of stock received or delivered during the above period we get a check on the balance held. The coupon work during the months of June and December is very considerable, because the interest payments are usually made in January and July.

CHAPTER XII.

THE REGISTRATION DEPARTMENT.

In recent years the London banks have undertaken the registration of stocks and shares. The Bank of England formerly was the only bank which managed the transfer and payment of dividends on stocks. The Government considered it advantageous that the Bank of England should undertake the entire management of the National Debt in order to be relieved of the responsibilities attached thereto. When we consider that the National Debt amounts to about £588,000,000 we can form some idea of the magnitude of the work. In course of time our Colonies wish to fund their debt and then other banks undertook the management of stocks in the same manner as the Bank of England.

There are two forms of registration, *viz.*, what are known as the book and the deed systems. In the former case a stockbroker lodges at the Bank a request to transfer stock from A, a seller, to B, a buyer.

The ticket is as follows :—

"..... Bank, the..... day of..... 189.....

From.....

£500 Victoria four per cent. stock to.....

"Examined.....Dr. fo.....Cr. fo.....Transfer.....by.....Posted by.....Posted by.....Book."

If correct, the clerk copies the particulars from the ticket into the transfer-book, which contains a series of blank forms of transfer.

The stockbroker prepares a document called the stock receipt, which contains the particulars of the transaction.

The form is as follows:—

£4500

Liverpool Corporation Stock at 99½

£3 10s. per cent.

Transfer Days.		
Monday, Tuesday, Wednesday, Thursday, Friday. Holidays excepted.	Received this.....day of ....., 1885, of John Jones, hereinafter called the said Transferee, the sum of Four thousand four hundred and sixty-six Pounds five shillings, being the consideration for Four thousand five hundred Pounds Interest or Share in the Liverpool Corporation, £3 10s. % transferable at the Bank of England, and all my Property and Interest in and Right to the same and the Dividends thereon by me this day transferred unto the said Transferee.	
	Witness my Hand,	£4466 5 0 Comn. 5 12 6
	.....	
	Witness,	£4471 17 6

The seller signs the book, which is a formal discharge to the bank, and the stock receipt is handed to the broker, who delivers it to the buyer.

Each transfer is a perfect deed of conveyance, and from the transfer book the particulars are copied into the Stock Ledger.

The deed system of registration is somewhat similar, but, instead of the preparation of a ticket and receipt, a deed of transfer is prepared similar to the form mentioned on page 64. When this is signed and witnessed by the transferor and transferee it is lodged for registration with a *certificate* representing the stock which has been previously issued by the bank.

No transfer is registered without the production of this certificate, which gives full particulars of the stock held.

The particulars of the transfer, when left for registration, are copied into the Transfer Register, which is as follows:—

From whom Transferred.				To whom Transferred.					
No.	Date of Transfer.	Name and Address.	Dr. Fo.	Name and Address.	Cr. Fo.	Amount.			Certificate sent.
						£	s.	d.	

With the exception of the deed and certificate, the two systems are identical, because in both cases the particulars of the transaction must be posted in the Stock Ledger.

STOCK LEDGER.

.....

Date.	Transfer No.	From whom Transferred.	Dr.			Cr.			Balance.			Record of Powers of Attorney.
			£	S.	D.	£	S.	D.	£	S.	D.	

The names and descriptions of the stockholders are entered from the transfer register, and the Ledger is kept on the same principle as a current account ledger.

In order to pay the quarterly or half-quarterly dividends a balance is struck on a particular night, either a fortnight or a month before the dividends are due, and all transactions after the specified date are "ex-dividend".

The usual method is to balance all the accounts in the Stock Ledger and then to ascertain whether the total amount agrees with the total of stock issued. If correct the particulars are copied in the Dividend Book as follows:—

No.	Name.	Amount of Stock.			Dividend.			Jan. Tax.			Net Amount.			By whom Received.	Date of Payment.
		£	S.	D.	£	S.	D.	£	S.	D.	£	S.	D.		

The interest is calculated on each amount of stock and of course the totals should agree.

When this has been done the dividend warrants are prepared so that at the date of payment they can be sent by post at the request of the stockholder to his registered address, unless he wishes to call at the Bank and receive payment. Some banks forward dividend warrants without a written request from a stockholder or stockholders.

When the book system is used the Stock can be transferred by means of a power of attorney, which obviates the necessity of personal attendance in order to transfer it.

The power must bear a 10s. impressed stamp, and must be executed by the stockholder or stockholders before two witnesses, who must add their addresses and occupations.

Powers of attorney are usually in favour of a Bank, so that after they are lodged, the representative of such bank, who is personally known, attends and makes the transfer in the books.

The stock receipt is then given to the broker acting for the Bank and he delivers the same to the buyer.

CHAPTER XIII.

CIRCULAR NOTES AND LETTERS OF CREDIT.

THE issue of circular notes and letters of credit is a great convenience to those who intend travelling abroad, because it obviates the necessity of taking coin or notes, and it is also somewhat difficult to change cheques in foreign countries.

Circular notes are addressed to correspondents in French, because that language is universally known.

"..... Bank.

"No.....

"Lettre de Crédit Circulaire pour £10 sterling.

"Londres, ce..... 18.....

"à Messieurs les Banquiers
désignés dans nos lettres d'indication.

"MESSIEURS,

"Cette lettre vous sera remise par M.....
dont vous trouverez la signature dans notre Lettre d'Indication susdite. Je vous prie de vouloir bien lui compter sans frais quelconques la valeur de dix Livres

Sterling au cours à usance sur Londres contre sa Traite ci-jointe sur cette Banque.

" J'ai l'honneur d'être,

" Messieurs,

" Votre très obéissant serviteur,

" .....*Gérant.*

" .....*Secrétaire.*"

On the other side :—

".....Bank,

" Londres,.....

" £10

" A sept jours de vue préfix payez à l'ordre de M..... Dix Livres sterling, valeur reçue

" à

" ce.....18....."

The Circular Notes are accompanied by a Letter of Indication as follows :—

" Londres, ce.....18.....,

" MESSIEURS,

" Le Porteur de cette Lettre, M.....,

pour lequel nous réclamons vos attentions est muni de nos Billets de Change Circulaires pour son voyage. Nous vous prions de lui en fournir la valeur sur son double acquit au cours du change à usance sur notre place et san déductions de frais.

" Si la ville où il en touchera le montant n'a pas de Change direct sur Londres vous voudrez bien en combiner un avec la Place Cambiste la plus voisine.

"Vous observerez que tout Agio sur espèces d'or ou d'argent, et tous frais extraordinaires dans le cas d'un remboursement indirect doivent être supportés par le Porteur et ne peuvent être à notre charge.

"Cette Lettre devant accompagner nos Billets Circulaires doit rester dans les mains de leur Porteur jusqu'à leur épuisement.

"Nous avons l'honneur d'être,

"Messieurs,

"Vos très humbles et très obéissants Serviteurs,

"..... *Gérant.*

"..... *Secrétaire.*"

The Letter of Indication must be produced when a Circular Note is presented for payment and the holder then indorses it. The person or firm who pays the amount must see that the signature agrees with that on the Letter of Indication.

A Letter of Credit is somewhat similar to circular notes, but, instead of payment being made against notes of certain specified sums, the amount paid is recorded on the back of the said Credit.

Circular notes are accepted by hotel-keepers and others, and are therefore considered more useful than Letters of Credit, especially in towns where there is no foreign correspondent representing the bank which issues such credits.

The form of a Letter of Credit would be as follows :—

"£300 (amount perforated).

"No.....

"LONDON, 1*st January*, 1897.

"GENTLEMEN,

"This circular letter of credit will be presented to you by Mr. Thomas Brown, and we request you to hold at his disposal the sum of £300, say Three hundred pounds, and to pay him in such sums as he may require. Please to indorse hereon any advances made to him, and to draw upon us at sight, which we hereby agree to accept. This credit is to continue in force until the 1st July, 1897.

"We remain,

"Your obedient servants,

"*Manager*.

"*Secretary*."

The reverse side of the Letter of Credit is as follows :—

Date.	By whom Paid.	Amount Paid.	Amount in Figures.		
			£	s.	d.

As a protection to the holder the Letter should be kept separate from the list of correspondents.

The usual course adopted in a bank is to open an

account in the Ledger entitled Foreign Credit Account, and when a Letter of Credit is issued to debit the customer's account and credit the foreign credit. When the bills drawn against the credit are presented for payment the Foreign Credit Account is debited with the amount.

As there is always a demand abroad for bills drawn upon this country the foreign correspondent is able to make a profit over the transaction by the variations in the rate of exchange.

A London bank is also required to open credits for the customers of foreign banks in the same manner as the issue of Letters of Credit already described.

The following would be an example:—

"BUENOS AYRES,

"*April*, 1897.

"Bank,

"London.

"We shall be obliged by your placing the sum of five hundred pounds (£500) at the disposal of Mr. John Jones, making the whole amount or any part of it available to him at other places if desired. This credit to remain in force for three months from this date.

"Please debit our account with payments made under this credit, and favour us with your accustomed early advice of the same.

"I am,

"Your obedient servant,

"*Manager*.

"Mr. John Jones will sign as follows:—

"....."

London is the financial centre of the world, and consequently we find that shipments of goods from one country to another are paid for by means of bills drawn upon London.

For example, a merchant in Australia is an importer of goods from America, and wishes to pay the buyer who resides in New York.

In order to do this the Australian merchant obtains from the Bank what is known as a "Marginal Credit".

The Australian Bank informs its Agent in New York that a credit has been granted in favour of the American firm, which is allowed to draw on the London Branch provided the conditions under which the credit is granted are complied with. The margin of the bill is as follows:—

"We, as agents of the.....Bank, hereby certify that A. B. has complied with the conditions of a credit issued by that bank at Melbourne, No. .....dated 1st January, 1897, so far as regards the set of exchange of which the annexed is the first, and that the first presented bill of such set of exchange, if drawn by them in terms of the said credit before 1st July, 1897, for £500, payable ten days after sight, will be entitled to due honour by the..... Bank, provided this certificate, as annexed to such

bill, be presented herewith and delivered to the said .....Bank in acceptance thereof."

This certificate is attached to the bill, which is as follows :—

"No.....£500.

".....New York.

".....1897.

"Ten days after sight pay this first of exchange (second and third of the same tenor and date being unpaid) to the order of W. B. & Co. the sum of five hundred pounds, as per Melbourne branch credit, No.....dated.....

"*To*.....Bank,

"London."

This is a good illustration, showing how banks are utilised for the purpose of settling international trade without the transmission of the precious metals from one country to another.

CHAPTER XIV.

BRANCH RETURNS.

We have already noticed that a London bank sends daily advices to those banks for which it acts as agent, and such returns are necessary because it would be impossible for the country bank to show a correct statement of its affairs without including the transactions in London on its behalf.

With regard to branch banking, the relationship between the chief office and a branch is somewhat similar, because a daily statement must be sent to each branch showing what transactions have taken place. This is shown in a letter of advice, which consists of a series of debit and credit entries made on account of the branch. Again, a very important account is kept at the branch, which is an impersonal one, and called the "Chief Office Cash Account". This is opened in the General or Impersonal Ledger, and shows various debit and credit entries of which the Chief Office requires to be advised.

This procedure is similar to a bank acting as agent for a country bank, where a copy of the Ledger Account is sent at stated intervals. In addition to

the cash account, the branch sends a daily letter of advice, which shows the chief banking operations that have occurred during banking hours.

For example, cheques on London banks and country cheques are sent to the Chief Office for collection, and also a statement showing what the branch has done and what it requires the central establishment to do on its behalf. On receipt of such advices from the branches at the Chief Office the various entries are made, either debit or credit, and it must be remembered that every branch entry must be marked off in due course.

It is the duty of an official to see that every entry, whether debit or credit, should in course of time be marked off. The returns from a branch to the Chief Office, whether they are daily, weekly, monthly or quarterly, must be a complete record of all important transactions.

The Day Book at a branch should be kept in such a manner that the various accounts may correspond with those kept at the central establishment.

The following is a specimen of the Day-Book, and shows the classification of such accounts; and from this book the various entries are posted in the General or Impersonal Ledger as already described in a previous chapter.

DAY BOOK.

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Balance last night							1. Cash Account						
1. Cash Account							2. Current Accounts						
2. Current Accounts—							3. Bills of Exchange on hand						
(1) Received for Customers							4. Promissory Notes on hand						
(2) Received for Agents							5. Salaries Account						
3. Bills of Exchange Account							6. Rent and Taxes						
4. Promissory Note Account							7. Incidental Expenses						
5. Deposit Account							8. Interest paid—						
6. Commission Account							On Bills						
7. Interest received—							On Loans						
On Bills							On Miscellaneous						
On Loans													
On Miscellaneous							Balance						

We noticed that sometimes the credit and debit columns of the ledger are in reverse order to the pass-book, and this is the exact relationship between the branch and chief office. The various entries when received are made in reverse order, because the chief office is debtor to the branch for sums received, and creditor for sums paid. It must be understood that the Cash Account is similar to a current account, except that the branch is as it were the customer of the Chief Office. The Pass Book given to a customer resembles the Cash Account sent to the Chief Office.

The Cash Account may be a weekly or fortnightly one, but other transactions are shown in the daily letter of advice.

If we analyse the Cash Account we shall find that it is a record of many banking operations.

The weekly or fortnightly return should include:—

1. A debtor and creditor statement of the Impersonal or General Ledger balances at the date of making the return.

2. An abstract of transactions or a statement of daily entries on some of the most important accounts.

3. An abstract of money lent and deposited. The former would embrace loans, discounts, advances on short bills and overdrafts, and the latter the current and deposit accounts.

4. A list of overdue bills with particulars.

5. Particulars of interest and commission received and paid.

6. Abstract of the Expenses Accounts.

7. A statement of debtor balances on current accounts with particulars.

8. A return of stamped forms of drafts and also the number of deposit receipts issued or cancelled during week and the balance on hand.

One of the returns made during the month should show the number of accounts opened and closed.

The Chief Office sends to the branch the cheques drawn upon it and paid through the country clearing. The branch account is therefore debited, and these cheques in the branch books would be credited to chief office cash account and the several accounts at the branch debited.

Cash received at the Chief Office for the credit of a branch would be treated as follows: branch account being credited and cash account at branch debited. It is usual for a branch to send Scotch and Irish cheques and bills for collection due in the country direct in order to save time. When this is done the transaction is completed at the head office by means of debit and credit entries.

The banks which receive such cheques instruct their London agents to pay the Chief Office of the branch.

We will suppose that the amount received at a branch during the day consists of the following Cash Articles :—

	£
Coin - - - - -	4000
Notes - - - - -	6000
Cheques and Bills - - -	10,000
	20,000

On examination we find that the cheques and bills which formed part of the total were as follows:—

Cheques on London Clearing Bankers - - -	£ 4000
Cheques on Country Banks -	4000
Bill due at Birmingham - -	1000
Bill due at Manchester - -	1000
	10,000

The cheques both town and country would be remitted to the London office under the heading of cash account for the credit of the branch, and when the banks at Birmingham and Manchester instruct their London Agents to pay the chief office of the bank, the branch would be duly credited.

When bills are discounted, the customer's account is credited and the account in the general or impersonal ledger entitled Discounts is debited. All bills discounted by a branch are sent to the Chief Office, and when due, if payable at the said branch, are remitted to it for collection. The customer's account is then debited if the bill is accepted by him, and Bills Discounted Account credited.

If a branch bank discounts a bill for a customer the entry would be as follows: bills discounted would be debited and the customer's account credited the full amount and debited for interest, and on the other side interest on bills discounted credited.

If, however, the customer requires a draft on London for the amount received by discounting the bill, the current account should be debited, and London Agent credited.

The following shows the transaction :—

	£	s.	d.		£	s.	d.
Current Account—				Bills Discounted A/c—			
J. Jones' Bill - -	100	0	0	Jones, 4th January	100	0	0
Discount Account—				Current Account—			
J. Jones - - -	2	10	0	Debit J. Jones -	2	10	0
London Agent A/c -	97	10	0	J. Jones—			
Draft No. 1001 to Jones				Draft in London -	97	10	0

In fact the Chief Office is advised of every important transaction which takes place at the branch.

At the end of the quarter the profit and loss accounts in the General or Impersonal Ledger are closed and the chief office is credited and debited, so that the branch begins each quarter with every profit and loss account in the ledger balanced by means of debit and credit entries.

This is effected by means of a separate opening in the Day Book after the usual day's transactions are recorded. The following is an example of such closing entries :—

	£
Chief Office Cash Account—	
Per Discount Account	55
Per Interest on Loans	550
Rent and Taxes—	
Per Chief Office	125
Expenses, etc.—	
Per Chief Office	50
Salaries Account—	
Per Chief Office	100
Interest on Deposits—	
Per Chief Office	100
	980

	£
Chief Office Cash Account—	
Rent and Taxes	125
Expenses	50
Salaries Account	100
Interest on Deposits	100
Discount Account—	
Transferred to Chief Office	55
Interest on Loans—	
Transferred to Chief Office	550
	980

The branch may not show a large profit on the return made, but it must be remembered that the Chief Office may have a large balance on its behalf and can lend the same at interest, or can utilise the capital at another branch where there is a greater demand for loans.

In Scotland, where Cash or Credit Accounts are opened on the security of guarantors, a quarterly return is made as follows:—

Date when Granted.	Name and Designation of Principal Obligant.	Name and Designation of each Security.	Amount.			Amount Due.			Remarks.
			£	S.	D.	£	S.	D.	

Under the heading "remarks," the agent reports fully on the present position of all the Obligants both Principal and Securities.

The returns from a branch should always be complete, so that the Chief Office can form an opinion as to the working and position of the branch. This is especially the case with regard to loans, discounts and overdrafts, of which full particulars should be given.

When we remember that nearly 50 per cent. of the assets of a bank consist of loans advanced to customers in various forms, we can understand the necessity of the care required in order to prevent losses being made.

The transfer of money from one branch to another or to the Chief Office can easily be arranged by means of debit and credit entries through the Chief Office Cash Account. In the daily letter of advice the branch would request the Chief Office to make the necessary transfer and the operation would be effected through the Cash Account. The branch would at the same time advise the receiving branch of the transaction, so that the necessary debit and credit entries can be made in the books of such branch.

CHAPTER XV.

GENERAL BALANCE STATEMENT.

We have seen that banks require books showing the amounts held on behalf of depositors and also on what is known as current or drawing accounts. Against such amounts the bank holds certain assets such as Government Stocks, Foreign and Colonial Stocks, bills discounted on behalf of customers, and loans granted on approved securities.

However in addition to these there is another item which appears in the bank books and which is known as the capital of the bank.

We will suppose that certain people, designated shareholders, have subscribed capital in order to start the business of banking. It is necessary that books should be kept showing the names of such shareholders, and when shares held by them are sold in the market a record must be kept of the transaction.

A register is kept which shows :—

1. The names and addresses of the shareholders.

2. The date when each person became a shareholder.

3. The date when he ceased to be a member. An annual return must be made to the Registrar of

Joint-Stock Companies giving the following particulars, *viz.* :—

(1) The amount of the capital of the company and the number of shares into which it is divided.

(2) The number of shares taken from the commencement of the company up to the date of the summary.

(3) The amount of calls made on each share.

(4) The total amount of calls received.

(5) The total amount of calls unpaid.

(6) The total amount of shares forfeited.

(7) The names, addresses, and occupations of the persons who have ceased to be members since the last list was made and the number of shares held by each of them.

A set of books similar to those kept in the Registration Department must be used, *viz.* :—

1. A transfer register giving particulars when shares are transferred.

2. A ledger where all the transactions from the transfer register are recorded.

3. A dividend book giving the particulars of yearly or half-yearly dividends when paid.

In addition to the capital of the bank which is partly invested in Government Stock, there is also the reserve fund which represents the accumulated profits of previous half-years. This reserve fund is usually invested in Government Stock or other first-class securities. During a period of commercial crisis

or panic, the advantage to a bank in holding a large proportion of its capital and reserve in good securities has proved most beneficial, because on several occasions recorded in the history of banking the only realisable stocks have been Consols, and Exchequer or Treasury Bills.

The balance-sheet can be divided into two parts, *viz.*: the general statement, and the profit and loss account; the first showing the assets and liabilities of a bank, and the second the result of the half-year's operations.

With regard to the assets we have first the cash in hand and at the Bank of England which varies considerably.

The money at call represents capital lent to bill brokers on the security of first-class bills of exchange or government stocks.

The investments of the bank are the next item in the balance-sheet and consist of government stocks, colonial and other securities.

It is usual for a bank to take its investments at cost price or even at a lower value. For example, Consols may be valued at 90, whereas the real value at the present time is about 110.

This, of course, is an additional reserve, because if a bank held £1,000,000 at 90, the balance-sheet would show only £900,000, whilst the real value is £1,100,000. This amount of £200,000 would be an additional reserve. Of course, investments which

have fallen in value should be taken at the market price, and the debit balance carried to profit and loss account.

The amount of bills discounted and the totals of loans and advances would be shown in the general ledger as well as in the Loan and Discount Ledger.

The next item would be liabilities of customers for acceptances, and this must be stated in the balance-sheet because the bank must pay such acceptances at maturity; but it holds marketable securities against the same, and therefore the amount is shown on both sides of the balance-sheet. The total sum would be shown in the acceptance book, which records the amounts and particulars of bills drawn upon the bank and accepted. The last item of the assets is the bank premises account, and it is usual to write off a certain amount annually so that the value in the bank books is considerably below the market value of premises belonging to the bank.

With regard to the liabilities, they can easily be ascertained from the General Ledger, because under the headings of deposit and current accounts we get the half-yearly balances.

The liabilities on circular notes and letters of credit are shown from the foreign credit account.

Although the bank is liable for these credits, it has already debited the current accounts for the total amount, and therefore it is an account in another form.

We have already mentioned the Capital and Reserve Fund, which are accounts in the General Ledger. The rebate of bills not due is part of amount of interest received on bills discounted, but as they have not matured, only a part of the interest is really earned, and therefore the item forms a liability in the balance-sheet. In order to show what is due to or by the bank on Interest Account it is necessary to open a new account called the Adjustment Account of Interest. Thus all interest due to the bank on current accounts is calculated and debited to Adjustment Account of Interest and credited to Interest Account. In the same manner interest due by the bank on deposit and rebate on bills discounted is credited to the Adjustment Account and debited to Interest Account, and the balance of this account is carried to Profit and Loss Account. With regard to the balance of Adjustment Account, it is necessary to transfer it to the General Balance Account, which shows how the differences have been adjusted.

It is usual to carry forward a sum which represents undivided profits in order to meet contingencies. For example, if a loss is made during the half-year this sum may be utilised for the purpose.

The balance-sheet is usually in the following form :—

..... BANK, LIMITED, 30TH JUNE, 1897.

DR. *Liabilities.*			CR. *Assets.*		
Capital—100,000 shares of £100 each	£10,000,000		By Cash in hand and at Bank of England	£5,000,000	
To amount paid up—£40 per share on 100,000 shares		£4,000,000	,, Money at call and short notice	8,000,000	£13,000,000
,, Reserve Fund		1,000,000	,, Investments—		
,, Amount due by the Bank on Current Accounts, Deposit Accounts and Circular Notes	45,000,000		£2,000,000 Consols at 90 °/₀	£1,800,000	
,, Drafts Current	300,000		English Railway Debenture and other First Class Stocks	10,000,000	
		45,300,000			11,800,000
,, Customers' Acceptances, Contingent Liability (as per contra)	£3,000,000		,, Bills discounted	£5,000,000	
,, Foreign Bills negotiated	60,000		,, Loans and Advances to Customers	20,000,000	
		3,060,000			25,000,000
,, Profit and Loss Account—			,, Acceptances on behalf of Customers (as per contra)	£3,000,000	
The Usual Dividend now proposed to be paid	£160,000		,, Foreign Bills negotiated (as per contra)	60,000	
The Usual Dividend proposed to be paid 1st Nov.	160,000				3,060,000
Balance of Undivided Profit to be carried to next Account	130,000		,, Bank Premises and Furniture		930,000
		430,000			
		£53,790,000			£53,790,000

Profit and Loss Account for the Half-Year ending 30th June, 1897.

Dr.			Cr.	
To Total Expenditure (including Salaries, Auditors' Fees, Rent, Taxes and all other charges)		£300,000	By Balance of Undivided Profit, 31st December, 1896	£120,000
,, Rebate of Discount on Bills at 5 per cent.		40,000	,, Gross Profits for the past half-year (including Rebate brought from previous half-year, and after appropriating £5000 towards the Premises of the Bank, paying the Income Tax, and making due provision for bad and doubtful Debts)	800,000
,, Interim Dividend of 10 per cent.	£200,000			
,, Proposed Dividend of 15 per cent.	300,000			
,, Balance of Undivided Profit	80,000			
		580,000		
		£920,000		£920,000

CHAPTER XVI.

INTEREST.

We have endeavoured to give a brief outline of the work in a bank, but it would be incomplete without reference to a subject which plays a very important part in connection with the daily routine, and that is interest.

This subject forms the most important theme at every bank meeting, because the profits of banks are largely dependent upon the rate of interest ruling in the market.

Again, the daily transactions vary considerably with the fluctuations in the rate of interest. When trade is active there are more banking operations, and this is reflected in numerous alterations in the rate of interest.

If there is stagnation in trade the effect is soon felt in the banks, where the daily work is considerably lessened, and when we consider the cause and effect of fluctuations in the rate of interest we shall see how it affects indirectly the daily routine.

Interest is defined as the money income derived from the loan of capital, but another term is fre-

quently used, especially with regard to the loan of money on bills of exchange, *viz.*, "discount," which is the difference between a sum of money due at a future period and its present value, or a deduction that is made from the amount of a debt that is paid before it is due. The amount deducted depends upon the value of money or what we term the rate of discount.

A bank does not deduct discount which is the interest of the present worth of a sum of money calculated from the present time to the date when the sum would be payable, but simply the interest from the date when the loan was granted to the maturity of the bill.

The difference between true discount and interest charged, on a bill for £1000 payable at seven months' date at 5 % would be 1s. $\frac{99}{101}$ in its favour.

It is somewhat difficult for a beginner to understand the causes of fluctuations in the rate of interest, but the most important point to remember is that the price for the loan of capital varies with supply and demand—in some respects similar to the price of coal or iron. Capital, however, is subject to a great number of fluctuations which are due partly to the state of credit.

In this country a great number of commercial transactions are based upon credit; that is, a merchant sells goods and receives in exchange a bill

payable at some fixed period. Through the medium of banks he is able to get this bill discounted, provided the acceptor is well known to the banker and the merchant's credit is good.

When, however, there is a feeling of distrust in the money market it is somewhat difficult to discount bills, and naturally the rate of interest rises. There is more risk attached to the transaction, and consequently the banker expects to receive a higher rate of interest for the business. Again: the state of trade causes fluctuations in the rate, because when trade is active, every one is anxious to profit by rising prices, and then we get a great number of applications for loans of capital. Under such circumstances the rate rises and sometimes very rapidly.

The reverse takes place when trade is depressed; the demand for the loan of capital is small, and we should then expect to see the rate fall. The demand for capital is therefore largely dependent upon the activity of trade.

The work in a bank is also of a fluctuating nature, because with active trade each Department is busy with banking operations caused by the sudden change in the state of commerce.

On the other hand, the supply of capital is dependent upon the rate of interest, for with a high rate every one is anxious to lend. Supply is also affected by the savings of the people. The latter cause is the

most important one, and the result is a large accumulation of capital, which is so large that the rate of interest tends to fall.

Banking operations are largely governed by the Bank of England rate of discount, but it is somewhat difficult to understand why the Bank should fix the rate. If, however, we remember that the Bank of England has a large paid-up capital, with large deposits on private and Government account, we can in some way understand why it assumed the responsibility of fixing the price for the loans of capital.

There is also another important fact, and that is the Bank of England holds the cash reserve of the country. We know that all our transactions are based upon gold, and although we use cheques, bills and notes for transferring capital from one person to another, yet the transactions are all upon the understanding that, if necessary, gold shall liquidate the debt.

Again, our foreign trade is carried on upon the same idea. Bills of exchange are used for settling international trade, and yet it often happens that gold is finally required to settle the transaction.

The Bank of England holds a very large stock of gold, and therefore the movements of that metal to and from that institution are watched with considerable interest by the mercantile world; however, by raising the rate of interest, capital can be attracted

to this country because it always finds its way to the most profitable market. Another very important reason why the Bank of England occupies such a unique position is that all the banks in this country keep their reserves at that institution, and therefore any sudden demand for capital is soon reflected in the amount of deposits held by that institution.

It thus follows that the total amount of capital held, is the guiding force or pivot which directs the money value for the loan of the same.

Thus the official rate fixed by the Bank of England is taken by other banking institutions as a guide for rates charged by them.

Outside the Bank we have a group of persons termed bill-brokers who are willing to discount bills at a lower rate than the central institution. They are enabled to do this by receiving money on deposit, and the rates allowed for such deposits are arranged at a meeting previously held at one of the discount houses.

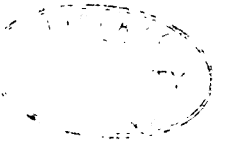
When this has been decided, each discount house settles for itself what rates shall be quoted for bills. Thus we have a daily varying rate, but of course the tendency is always towards a uniformity of price.

Sometimes the competition for business is very keen, so that the difference between the deposit and discount rates is only $\frac{1}{32}$ per cent. or even less.

The banks lend their daily surplus balances to the discount houses, and this tends to increase the com-

petition for bills, because there must not be if possible any surplus capital lying idle.

When the discount houses cannot obtain all their requirements from the banks, they have recourse to the Bank of England, where loans are only made for certain stated periods. Thus the Bank knows when capital is getting scarce by the applications which are made, and consequently raises the rate if necessary in order to protect the gold reserve. The subject is a very interesting one, and every official should endeavour to grasp the main facts, so that when alterations of the rate of interest take place he may see the reason for the change.



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